NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Neo Performance Materials Inc.

Opinion

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

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of profit or loss for the years then ended
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Bryant Ramdoo.

Toronto, Canada

March 10, 2019

NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(all figures in thousands of United States dollars)

	December 31, 2018	December 31, 2017
ASSETS		
Current		
Cash and cash equivalents	71,015	96,805
Restricted cash	1,650	1,529
Accounts receivable (Note 6)	49,544	46,766
Inventories (Note 7)	136,350	104,534
Income taxes receivable	343	661
Other current assets	20,554	13,955
Total current assets	**279,456**	**264,250**
Property, plant and equipment (Note 8)	86,963	88,392
Intangible assets (Note 9)	66,721	72,769
Goodwill (Note 10)	99,365	101,893
Investments (Note 11)	8,605	8,633
Deferred tax assets (Note 19)	1,079	1,406
Other non-current assets	834	1,150
Total non-current assets	**263,567**	**274,243**
Total assets	**$ 543,023**	**$ 538,493**
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt (Note 12)	3,970	181
Accounts payable and other accrued charges	59,877	72,250
Income taxes payable	6,566	6,319
Other current liabilities	777	2,704
Total current liabilities	**71,190**	**81,454**
Employee benefits	2,125	2,437
Derivative liability (Note 12)	9,525	9,842
Provisions (Note 25)	4,717	4,665
Deferred tax liabilities (Note 19)	17,730	20,206
Other non-current liabilities	559	642
Total non-current liabilities	**34,656**	**37,792**
Total liabilities	**105,846**	**119,246**
Non-controlling interest	4,758	5,831
Equity attributable to equity holders of Neo Performance Materials Inc.	432,419	413,416
Total equity	**437,177**	**419,247**
Total liabilities and equity	**$ 543,023**	**$ 538,493**

Commitments and contingencies (Note 15)

Subsequent events (Note 28)

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Year Ended December 31, 2018	Year Ended December 31, 2017
Revenue	454,195	434,169
Costs of sales		
Costs excluding depreciation and amortization	324,361	296,648
Depreciation and amortization	9,741	10,101
Gross profit	120,093	127,420
Expenses		
Selling, general and administrative	49,948	63,222
Share-based compensation (Note 20)	3,436	6,241
Depreciation and amortization	6,978	7,418
Research and development	16,843	15,714
	77,205	92,595
Operating income	**42,888**	**34,825**
Other income (Note 18)	10,660	1,803
Finance income, net	649	152
Foreign exchange loss	(565)	(466)
Income from operations before income taxes and equity income (loss) of associates	53,632	36,314
Income tax expense (Note 19)	(12,465)	(11,893)
Income from operations before equity income (loss) of associates	41,167	24,421
Equity (loss) income of associates (net of income tax) (Note 11)	(28)	972
Net income	**$ 41,139**	**$ 25,393**
Attributable to:		
Equity holders of Neo Performance Materials Inc.	$ 40,795	$ 24,620
Non-controlling interest	344	773
	$ 41,139	**$ 25,393**
Earnings per share attributable to equity holders of Neo Performance Materials Inc.:		
Basic (Note 17)	$ 1.02	$ 0.62
Diluted (Note 17)	$ 1.01	$ 0.61

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(all figures in thousands of United States dollars)

	Year Ended December 31,	
	2018	**2017**
Net income for the period	$ 41,139	$ 25,393
Other comprehensive (loss) income:		
Item that will not be reclassified subsequently to profit or loss:		
Defined benefit pension plan actuarial gain (net of income tax (benefit) expense of $44; 2017 - $(91))	140	160
Item that is or may be reclassified subsequently to profit or loss:		
Currency translation adjustment	(8,716)	9,994
Other comprehensive (loss) income for the period	**(8,576)**	**10,154**
Total comprehensive income for the period	**$ 32,563**	**$ 35,547**
Attributable to:		
Non-controlling interest	289	842
Equity holders of Neo Performance Materials Inc.	32,274	34,705
	$ 32,563	$ 35,547

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(all figures in thousands of United States dollars)

	Year Ended December 31,	
	2018	**2017**
Operating activities		
Net income for the period	$ 41,139	$ 25,393
Add (deduct) items not affecting cash:		
Depreciation and amortization	16,719	17,519
Share-based compensation	3,436	6,241
Acquired inventory fair value release (Note 7)	—	2,912
Change in pension liability	(173)	(69)
Finance income, net	(649)	(152)
Equity loss (income) of associates (Note 11)	28	(972)
Loss on disposal of property, plant and equipment	483	810
Insurance recovery included in other income	(11,769)	(2,209)
Income tax expense (Note 19)	12,465	11,893
Foreign exchange gain	(277)	(1,826)
Other	472	2,749
Net change in non-cash working capital balances related to operations (Note 14)	(57,769)	7,070
Income taxes paid	(13,169)	(9,264)
Interest received, net of interest paid	328	336
Cash (used in) provided by operating activities	**$ (8,736)**	**$ 60,431**
Investing activities		
Additions of property, plant and equipment	(12,708)	(12,235)
Additions of intangible assets	(803)	(44)
Dividends received from associates	—	9
Recovery from insurance claims	11,769	2,209
Increase in restricted cash	(190)	(1,503)
Cash used in investing activities	**$ (1,932)**	**$ (11,564)**
Financing activities		
Increase (decrease) in bank advances and other short-term debt, net.	3,797	(7,774)
Dividends paid to non-controlling interest	(1,245)	(1,271)
Dividends paid	(11,714)	(24,924)
Repurchase of common shares	(3,771)	—
Other financing activities	(501)	(442)
Cash used in financing activities	**$ (13,434)**	**$ (34,411)**
Effect of exchange rate changes on cash and cash equivalents	(1,688)	2,941
Cash (used) provided during the period	**(25,790)**	**17,397**
Cash and cash equivalents, beginning of period	96,805	79,408
Cash and cash equivalents, end of period	**$ 71,015**	**$ 96,805**

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(all figures in thousands of United States dollars)

	Share Capital				Other Comprehensive Income (Loss)			Total		
	Common Stock									
	Number	Amount	Retained Earnings (Deficits)	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains (net of tax)	Accumulated Other Comprehensive Income (Loss)	Equity Attributable to Equity Holders of Neo Performance Materials Inc.	Non-Controlling Interest	Equity
Balance - January 1, 2018	**39,921,577**	**$ 40**	**$ (12,949)**	**$ 422,210**	**$ 3,515**	**$ 600**	**$ 4,115**	**$ 413,416**	**$ 5,831**	**$ 419,247**
Net earnings	—	—	40,795	—	—	—	—	40,795	344	41,139
Other comprehensive loss	—	—	—	—	(8,661)	140	(8,521)	(8,521)	(55)	(8,576)
Total comprehensive income	—	—	40,795	—	(8,661)	140	(8,521)	32,274	289	32,563
Share-based compensation	—	—	—	2,715	—	—	—	2,715	—	2,715
Dividends paid to Neo shareholders	—	—	(11,714)	—	—	—	—	(11,714)	—	(11,714)
Distributions to non-controlling interest	—	—	—	—	—	—	—	—	(1,362)	(1,362)
Shares repurchased and canceled under Normal Course Issuer Bid	(321,222)	—	—	(3,771)	—	—	—	(3,771)	—	(3,771)
Issuance of common shares for Restricted Share Units exercised	49,985	—	—	(501)	—	—	—	(501)	—	(501)
	(271,237)	—	(11,714)	(1,557)	—	—	—	(13,271)	(1,362)	(14,633)
Balance - December 31, 2018	**39,650,340**	**$ 40**	**$ 16,132**	**$ 420,653**	**$ (5,146)**	**$ 740**	**$ (4,406)**	**$ 432,419**	**$ 4,758**	**$ 437,177**
Balance - January 1, 2017	**39,630,244**	**$ 40**	**$ (12,645)**	**$ 416,411**	**$ (6,410)**	**$ 440**	**$ (5,970)**	**$ 397,836**	**$ 6,260**	**$ 404,096**
Net earnings	—	—	24,620	—	—	—	—	24,620	773	25,393
Other comprehensive income	—	—	—	—	9,925	160	10,085	10,085	69	10,154
Total comprehensive income	—	—	24,620	—	9,925	160	10,085	34,705	842	35,547
Reissuance of common shares	248,140	—	—	—	—	—	—	—	—	—
Share-based compensation	—	—	—	6,241	—	—	—	6,241	—	6,241
Dividends paid to Neo shareholders	—	—	(24,924)	—	—	—	—	(24,924)	—	(24,924)
Distributions to non-controlling interest	—	—	—	—	—	—	—	—	(1,271)	(1,271)
Issuance of common shares for Restricted Share Units exercised	43,193	—	—	(442)	—	—	—	(442)	—	(442)
	291,333	—	(24,924)	5,799	—	—	—	(19,125)	(1,271)	(20,396)
Balance - December 31, 2017	**39,921,577**	**$ 40**	**$ (12,949)**	**$ 422,210**	**$ 3,515**	**$ 600**	**$ 4,115**	**$ 413,416**	**$ 5,831**	**$ 419,247**

See accompanying notes

NOTE 1 NATURE OF OPERATIONS

Neo Performance Materials Inc. ("**Neo**", the "**Company**" or the "**Group**") is a Canadian public company and was incorporated on September 12, 2017 under the *Business Corporations Act* (Ontario). OCM Neo Holdings (Cayman), L.P. ("**OCM**") formed Neo for the purpose of completing a Cayman Islands scheme of arrangement (the "**Arrangement**") with Neo Cayman Holdings Ltd. ("**Neo Cayman**") and a subsequent public offering of the common shares of Neo ("**Common Shares**").

On August 31, 2016, pursuant to the terms of the Fourth Joint Amended Plan of Reorganization, certain subsidiaries of Molycorp Inc. emerged from bankruptcy (the "**Reorganization**") under the ownership of Neo Cayman.

On November 30, 2017, Neo finalized the court approved Arrangement with Neo Cayman whereby Neo acquired all of the issued and outstanding shares of Neo Cayman in exchange for the issuance of an aggregate of 39,878,383 Common Shares. Neo's acquisition of Neo Cayman was a transaction amongst entities under common control. Accordingly, Neo accounted for this transaction using book value accounting, based on the book values recognized in the consolidated financial statements of Neo Cayman. Financial information for the pre-Arrangement period, including comparative periods, are presented based on the historical information of Neo Cayman.

Also on November 30, 2017, Neo completed an Initial Public Offering ("**IPO**") by way of a Secondary Offering on the Toronto Stock Exchange ("**TSX**"). Neo offered 11,115,000 Common Shares for total proceeds of Canadian dollar ("**Cdn**") $200,070,000 with an over-allotment option. On January 8, 2018, the underwriters exercised a portion of the over-allotment option for the purchase of an additional 1,100,000 Common Shares for additional gross proceeds of Cdn$19,800,000. All proceeds, net of underwriter commissions, were paid to the selling shareholder, Oaktree Capital Management L.P. ("**Oaktree**") and their affiliates. Oaktree continues to be the largest and majority shareholder of Neo.

Neo's registered and head office is located at 121 King Street West, Suite 1740, Toronto, Ontario, Canada, M5H 3T9.

Neo has established itself as a global leader in the innovation and manufacturing of rare earth and rare metal-based functional materials, which are essential inputs to high technology, high-growth, future-facing industries. Neo has approximately 1,815 employees and has a global platform that includes 10 manufacturing facilities located in China, the United States ("**U.S.**"), Germany, Canada, Estonia, Thailand and South Korea as well as two dedicated R&D centres in Singapore and the United Kingdom ("**UK**"). Neo is the only non-Chinese company with a license to separate rare earth elements ("**REEs**") in China, which provides unique competitive advantages and a degree of vertical integration. Since 1994, Neo has leveraged its rare earth separation expertise to innovate and grow into a leading manufacturer of functional engineered materials for specialty end markets. This includes establishing the #1 global market position in bonded magnets, a top-three global market position in auto emission control catalysts, the #1 gallium tri-chloride ("**GaCl3**") producer for light-emitting diodes ("**LEDs**") and growth opportunities into new end markets such as waste-water treatment. Neo is organized along three business segments: Magnequench, Chemicals & Oxides ("**C&O**") and Rare Metals, as well as the Corporate segment.

Magnequench

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

C&O

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

Rare Metals

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

Corporate

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

NOTE 2 GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The consolidated financial statements were approved and authorized for issuance by Neo's Board of Directors on March 10, 2019.

NOTE 3 BASIS OF PREPARATION

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

The preparation of these 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.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Overall considerations

These consolidated financial statements have been prepared using accounting policies specified by those IFRSs as issued by the IASB that are in effect at the end of the reporting period December 31, 2018.

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

4.2 Basis of Consolidation

4.2.1 Business Combinations

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

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

4.2.2 Subsidiaries and associates

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

Non-controlling interests ("**NCI**") arise from business combinations in which Neo acquires less than 100% interest. NCI is initially measured at the fair value of the acquiree's identifiable net assets at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary NCI.

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

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

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

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

Outlined below is information related to the Neo's subsidiaries and associates at December 31, 2018:

	Place of Business	**Entity Type**	**Economic Interest**	**Method**
Neo Cayman Holdings Ltd.	Cayman Island	Subsidiary	100%	Consolidation
Neo Performance Materials ULC	Canada	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides, LLC	United States	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides (Europe) Ltd.	United Kingdom	Subsidiary	100%	Consolidation
Neo Rare Metals (Korea) Inc.	South Korea	Subsidiary	80%	Consolidation
Neo International Corp.	Barbados	Subsidiary	100%	Consolidation
Jiangyin Jiahua Advanced Material Resources Co., Ltd.	China	Subsidiary	95%	Consolidation
Neo Japan, Inc.	Japan	Subsidiary	100%	Consolidation
Neo Performance Materials (Singapore) Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Zibo Jiahua Advanced Material Resources Co., Ltd.	China	Subsidiary	95%	Consolidation
NPM Silmet OÜ	Estonia	Subsidiary	100%	Consolidation
Magnequench Japan, Inc.	Japan	Subsidiary	100%	Consolidation
Shanxi Jiahua Galaxy Electronic Materials Co., Ltd.	China	Subsidiary	60%	Consolidation
Magnequench (Korat) Co., Ltd.	Thailand	Subsidiary	100%	Consolidation
Zibo Jia Xin Magnetic Materials Ltd.	China	Subsidiary	100%	Consolidation
Neo Rare Metals (Utah), LLC.	United States	Subsidiary	100%	Consolidation
NPM Holding (US), Inc.	United States	Subsidiary	100%	Consolidation
NMT Holdings GmbH	Germany	Subsidiary	100%	Consolidation
Buss & Buss Spezialmetalle GmbH	Germany	Subsidiary	50%	Consolidation
Neo Rare Metals (Oklahoma), LLC	United States	Subsidiary	80%	Consolidation
Jiangyin Kidokoro Glass Manufacture Co., Ltd.	China	Subsidiary	50%	Consolidation
Magnequench, LLC	United States	Subsidiary	100%	Consolidation
Magnequench Neo Powders Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Magnequench International, LLC	United States	Subsidiary	100%	Consolidation
Xin Bao Investment Limited	Hong Kong	Subsidiary	100%	Consolidation
Magnequench (Tianjin) Company Limited	China	Subsidiary	100%	Consolidation
Magnequench Limited	Barbados	Subsidiary	100%	Consolidation
Neo Performance Materials (Beijing) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench International Trading (Tianjin) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench GmbH	Germany	Subsidiary	100%	Consolidation
Neo Performance Materials Korea Inc.	South Korea	Subsidiary	100%	Consolidation
Neo US Holdings, Inc.	Canada	Subsidiary	100%	Consolidation
Neo Magnequench Distribution, LLC	United States	Subsidiary	100%	Consolidation

	Place of Business	Entity Type	Economic Interest	Method
Toda Magnequench Magnetic Material (Tianjin) Co., Ltd.	China	Joint venture	33%	Equity method
Gan Zhou Ke Li Rare Earth New Material	China	Joint venture	25%	Equity method
GQD Special Material (Thailand) Co., Ltd.	Thailand	Joint venture	20%	Equity method

4.2.3 Transactions eliminated on consolidation

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

4.3 Functional currency

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

4.3.1 Foreign currency transactions

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

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

4.3.2 Foreign operations

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

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

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

4.4 Segment reporting

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

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

4.5 Revenue recognition

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

4.6 Operating expenses

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

4.7 Goodwill

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

At the date of acquisition, goodwill is assigned to the Cash Generating Unit ("**CGU**") or group of CGUs that is expected to benefit from the synergies of the business combination. For the purpose of impairment testing, goodwill is allocated to Neo's operating segments, which are the individual divisions and corresponds to the level at which goodwill is internally monitored by the CODM. The recoverable amount of an operating segment or CGU, is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. A goodwill impairment is recognized for any excess of the carrying amount of the CGU (or group of CGUs) over its recoverable amount.

Goodwill impairment charges are recognized in profit or loss and are not reversible in future periods.

4.8 Property, plant and equipment

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

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

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

Reviews for impairment of properties in production and under development are conducted on an at least annual basis to determine indications that the carrying amount exceeds the recoverable amount. The carrying values of property, plant and equipment, which exceed their recoverable amounts, are written down to their recoverable amount and are recognized in the consolidated statements of profit or loss (see impairment section below).

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

4.9 Intangible assets

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

Reviews for impairment of definite life intangible assets are conducted whenever facts or circumstances indicate that the carrying amount may exceed its recoverable amount.

4.10 Leases

Leases are classified as finance leases if Neo bears substantially all risks and rewards of ownership of the leased asset. At the inception of the lease, the related asset is recognized at the lower of fair value and the present value of the minimum lease payments and a corresponding amount is recognized as a finance lease obligation. Lease payments are split between finance charges and the reduction of the finance lease obligation to achieve a constant proportion of the capital balance outstanding. Finance charges are charged to net income over the term of the lease.

All other leases are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the term of lease.

4.11 Impairment

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

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

Corporate head office assets and expenses are proportionately allocated to CGUs or groups of CGUs based on revenues.

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

To determine the value-in use, management estimates expected future cash flows from each CGU and determines a suitable pre-tax discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to Neo's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each CGU and reflect their respective risk profiles as assessed by management.

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

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

4.12 Financial instruments

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

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

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

Financial instruments - classification and measurement

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

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

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward–looking expected credit losses ("**ECL**") model. The ECL model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The existing model aligns with the simplified approach under IFRS 9, which measures lifetime ECL and forward–

looking information. Neo's allowance is determined by historical experiences, and considers factors including, the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers. The adoption of IFRS 9 did not have a material impact on Neo's policy for assessing impairment of financial assets.

4.13 Inventories

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

4.14 Income taxes

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

4.14.1 Current tax

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

4.14.2 Deferred tax

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

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

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

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

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

4.15 Cash and cash equivalents

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

4.16 Employee future benefits

The Company provides post-employment benefits through defined benefit plans and defined contribution plans.

4.16.1 Defined benefit plan

The defined benefit plans sponsored by Neo defines the amount of pension benefit that an employee will receive on retirement by reference to length of service and final salary.

Pension and other post-retirement benefits earned by employees are actuarially determined on an annual basis by independent actuaries using the projected unit credit method and based on assumptions such as the expected return on plan assets, retirement ages of employees and expected health care trend rate. Fair value is used to value the plan assets for the purpose of calculating the expected return on plan assets. Actual results may differ from results which are estimated based on assumptions. Past service cost arising from plan amendments are recognized immediately in the consolidated statements of profit or loss.

The asset or liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses are recognized in other comprehensive income in the period incurred.

4.16.2 Defined contribution benefits

A defined contribution plan is a pension plan under which Neo pays fixed contributions into a plan managed by an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. Payments to defined contribution plans are expensed in the consolidated statements of profit or loss in the period during which services are rendered by employees.

4.17 Share-based compensation

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

4.17.1 Equity-settled share-based plans

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

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

4.17.2 Cash-settled share-based plans

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

4.17.3 Deferred share units plan

Neo has adopted a non-employee director deferred share units ("**DSUs**") plan, which is described in Note 20. Obligations related to the DSUs plan are recorded as liabilities at fair value in Accounts payable and other accrued charges, and re-measured at each reporting date at fair value with reference to the fair value of Neo's share price and the number of units that have vested. The cost of the DSUs is recognized in Operating expenses in the period they are awarded.

4.18 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.

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

4.18.1 Income taxes

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

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

4.18.2 Impairment

An impairment loss is recognized for the amount by which an asset's or CGU's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in use, management estimates expected future cash flows from each asset or CGU and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets in future periods. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

4.18.3 Business combinations

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

4.18.4 Useful lives of depreciable assets

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

4.18.5 Inventories

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

4.18.6 Provisions

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

4.18.7 Defined benefit pension liability

Management estimates the defined benefit pension liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of the defined benefit pension liability is based on estimated retirement ages, medical cost trends and mortality. It also takes into account the Company's specific anticipation of future salary increases. Discount factors are determined based on matching the plan's projected cash flow with the independent actuaries' Discount Yield Curve. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future estimates of Neo's defined benefit pension obligations.

4.18.8 Fair value of financial instruments

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

4.18.9 Share-based compensation

Neo measures the cost of cash-settled and equity-settled share-based transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted, and re-measures the obligations related to cash-settled share-based plans with reference to the fair value of Neo's share price and the number of units that have been vested at each reporting date. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield, forfeiture rate and expectations regarding achievement of market conditions and related timing of such achievement. Such assumptions are inherently uncertain and changes in these assumptions affect the fair value estimates.

NOTE 5 RECENT ACCOUNTING PRONOUNCEMENTS

5.1 New standards issued and adopted

Neo adopted the following accounting standards and amendments to accounting standards, effective January 1, 2018:

5.1.1 IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, which replaces the existing revenue recognition guidance with a new, comprehensive framework for determining how and when revenue is recognized.

Neo has adopted IFRS 15 using the cumulative effect method as of January 1, 2018 with no material impact on its consolidated financial statements.

5.1.2 IFRS 9, Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9 (2014), to replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("**IAS 39**"). IFRS 9 eliminates previous IAS 39 financial asset categories of held to maturity, available-for-sale and loans and receivable. IFRS 9 provides a revised model for classification, measurement, impairment and derecognition of financial assets and liabilities, as well as general hedge accounting. IFRS 9 also requires a loss allowance for ECL on a financial asset that is measured at amortized cost.

The adoption of IFRS 9 has not had a significant effect on Neo's accounting policies relating to financial liabilities and derivative financial instruments. The adoption of the new classification requirements under IFRS 9 did not result in a change in the carrying value of any of Neo's financial instruments on the transition date. The application of the ECL model did not have a material impact on the consolidated financial statements as the credit risk related to the financial assets of Neo is low and historical customer defaults have been negligible.

The following table summarized the classification impacts upon adoption of IFRS 9.

Financial Assets and Liabilities	Classification under IAS 39	Classification under IFRS 9
Cash and cash equivalent	FVPL	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Bank advances and other short-term debt	Other liabilities	Amortized cost
Accounts payable and other accrued charges	Other liabilities	Amortized cost
Derivative liability	FVPL	FVPL

5.1.3 IFRIC 22 - Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB issued IFRIC Interpretation 22 - *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies which date should be used for translation of a foreign currency transaction when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income (or part of it).

The interpretation was applicable for annual periods beginning on or after January 1, 2018. Neo adopted the interpretation effective January 1, 2018, with no adjustment required to its consolidated financial statements.

5.2 New standards issued but not yet adopted

The following accounting pronouncements issued by the IASB were not effective for Neo as at December 31, 2018 and therefore have not been applied in preparing these consolidated financial statements. Neo intends to adopt these standards, if applicable, when they become effective.

5.2.1 IFRIC 23 - Uncertainty over income tax treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over income tax treatments ("**IFRIC 23**"). IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 - Income taxes ("**IAS 12**") when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. As a result of Neo's analysis to date, Neo does not expect any significant impact on its consolidated financial statements resulting from the adoption of this interpretation.

5.2.2 IFRS 16 - Leases

On January 13, 2016, the IASB issued IFRS 16 - Leases ("**IFRS 16**"). IFRS 16 supersedes IAS 17 - Leases, IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC-15 - Operating Leases – Incentives and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. IFRS 16 has an effective date of January 1, 2019, with early application permitted only if IFRS 15 has also been adopted. Management plans to apply IFRS16 using a simplified transition approach and will not restate comparative amounts for the year prior to the effective date. On January 1, 2019, Neo will recognize right-of-use assets and lease liabilities for its operating leases in accordance with IFRS 16. The nature of expenses related to the operating leases will change because Neo will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the recognition and measurement of finance leases under IFRS 16. Based on the information currently available, Neo estimated that it will recognize lease liabilities and right of use assets of approximately $4.0 million to $6.0 million as at January 1, 2019.

NOTE 6 ACCOUNTS RECEIVABLE

	December 31, 2018	December 31, 2017
Gross trade receivables	$ 49,674	$ 46,902
Less: loss allowance	(130)	(136)
Accounts receivable	**$ 49,544**	**$ 46,766**

The following table provides information about the exposure to credit risk and ECLs for accounts receivable as at December 31, 2018:

	Default rate	Gross carrying amount	Lifetime expected credit loss
Current (not past due)	—%	$ 40,763	$ —
1-30 days past due	—%	5,200	—
31-60 days past due	—%	2,211	—
61-90 days past due	1.50%	673	10
More than 90 days past due	14.50%	827	120
Total		**$ 49,674**	**$ 130**

Neo used the simplified provision matrix for calculating expected losses. The provision matrix is based on Neo's historical default rates over the expected life of the accounts receivable and is adjusted for forward-looking estimates. Neo reviews all amounts periodically for indicators of impairment and the amounts impaired have been provided for in the loss allowance.

Neo's exposure to credit risks and impairment losses related to accounts receivable is disclosed in Note 26.

NOTE 7 INVENTORIES

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

	December 31, 2018	December 31, 2017
Raw materials	$ 40,544	$ 34,011
Work-in-progress	28,037	24,591
Finished goods	58,796	38,420
Supplies	8,973	7,512
Total	**$ 136,350**	**$ 104,534**

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

For the year ended December 31, 2018, a total of $311.2 million of inventories was included in cost of sales compared to $280.4 million for the year ended December 31, 2017.

For the year ended December 31, 2017, $2.9 million of the fair value increments related to the inventory acquired through the Reorganization were released and recorded in costs of sales in the consolidated statements of profit or loss.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

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

	Land		Building & improvements		Machinery & Equipment		Office equipment		Construction in Progress (net of transfer)		Total
At January 1, 2017											
Cost	$	3,150	$	33,640	$	49,628	$	2,968	$	2,643	$ 92,029
Accumulated depreciation		—		(855)		(3,334)		(22)		—	(4,211)
Opening net book value at January 1, 2017	**$**	**3,150**	**$**	**32,785**	**$**	**46,294**	**$**	**2,946**	**$**	**2,643**	**$ 87,818**
Additions		—		113		1,904		144		10,074	12,235
Disposals, net of cost and accumulated depreciation		—		(355)		(418)		(31)		(6)	(810)
Transfers		—		1,875		3,427		202		(5,504)	—
Currency translation adjustments		—		473		1,103		225		42	1,843
Write-offs		—		—		(125)		(36)		(240)	(401)
Depreciation expense		—		(2,711)		(8,249)		(1,333)		—	(12,293)
Closing net book value at December 31, 2017	**$**	**3,150**	**$**	**32,180**	**$**	**43,936**	**$**	**2,117**	**$**	**7,009**	**$ 88,392**
Comprised of:											
Cost	$	3,150	$	36,321	$	55,567	$	3,441	$	7,009	$ 105,488
Accumulated depreciation		—		(4,141)		(11,631)		(1,324)		—	(17,096)

NOTE 9 INTANGIBLE ASSETS

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

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

	Customer Relationships		License agreements		Tradename		Total	
At January 1, 2017								
Cost	$	70,288	$	516	$	6,000	$	76,804
Accumulated amortization		(1,345)		(55)		—		(1,400)
Opening net book value at January 1, 2017	$	68,943	$	461	$	6,000	$	75,404
Additions		—		44		—		44
Currency translation adjustments		2,547		—		—		2,547
Amortization expense		(5,002)		(224)		—		(5,226)
Closing net book value at December 31, 2017	**$**	**66,488**	**$**	**281**	**$**	**6,000**	**$**	**72,769**
Comprised of:								
Cost	$	72,976	$	342	$	6,000	$	79,318
Accumulated amortization		(6,488)		(61)		—		(6,549)

NOTE 10 GOODWILL

	December 31, 2018		December 31, 2017	
Opening balance	$	101,893	$	98,911
Currency translation adjustments		(2,528)		2,982
Ending balance	**$**	**99,365**	**$**	**101,893**

Goodwill is allocated to the following group of CGUs for the purpose of annual impairment testing:

	December 31, 2018		December 31, 2017	
Magnequench	$	66,411	$	68,925
C&O		16,668		16,682
Rare Metals		16,286		16,286
Total goodwill allocated	**$**	**99,365**	**$**	**101,893**

On December 31, 2018, Neo performed goodwill impairment testing for all of its CGUs in accordance with its policy and based on conditions at that date. The recoverable amounts of the group of CGUs were determined on the basis of value-in-use, covering a detailed cash flow forecast based on the five-year budget. The forecasted cash flows are then discounted to calculate the present value of the cash flows expected to be derived from the group of CGUs that are being tested for impairment annually. This approach involves estimates and assumptions about revenue growth rates, operating margins, tax rates and discount rates.

1. **The revenue growth rate** is determined based on management's past experience in the industry, and ranged from 6.0% to 10.0% based on Neo's financial plan approved by the Board. The cash flow forecasts at the end of the planning period were extrapolated using an estimated long term growth rate of 3.0%.

2. **The discount rate** is determined in order to calculate the present value of the projected cash flows of the CGUs. A first indication for an appropriate asset-specific discount rate is the weighted average cost of capital ("**WACC**") of the business. The WACC is adjusted to reflect the specific risk profile of the respective CGUs. Neo has derived the WACC based on capital market data which involves separate analysis of the cost of equity and cost of debt,

and taking into consideration the market risk premium related to each CGU. The discount rate ranged from 10.0% to 13.0% for Neo's CGUs at December 31, 2018.

Neo has applied a higher discount rate to CGUs with more volatile cash flows due to participation in competitive markets and unstable customer demand, and a lower discount rate to CGUs with less volatile cash flows due to their market position and maturity of the markets they serve.

At December 31, 2018, no impairment existed in the Magnequench, C&O, and Rare Metals group of CGUs.

NOTE 11 INVESTMENTS

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

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

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

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

Aggregate financial information of these equity accounted associates as at and for the year ended December 31, 2018 and December 31, 2017 is provided below.

For the year ended December 31, 2018:

	TMT	Keli	GQD	Total
Total revenue	$ 3,720	$ 275,484	$ 18,532	$ 297,736
Share of revenue in associates	1,228	68,871	3,706	73,805
Net income (loss)	(122)	53	(6)	(75)
Share of income (loss) in associates	(40)	13	(1)	(28)

For the year ended December 31, 2017:

	TMT	Keli	GQD	Total
Total revenue	$ 4,058	$ 245,378	$ 5,513	$ 254,949
Share of revenue in associates	1,339	61,344	1,103	63,786
Net income (loss)	20	4,849	(1,236)	3,633
Share of income (loss) in associates	6	1,213	(247)	972

As at December 31, 2018:

	TMT	Keli	GQD	Total
Current assets	$ 4,717	$ 111,200	$ 9,922	$ 125,839
Non-current assets	1,474	3,727	1,660	6,861
Total assets of associates	**$ 6,191**	**$ 114,927**	**$ 11,582**	**$ 132,700**
Current liabilities	$ 1,193	$ 86,310	$ 9,372	$ 96,875
Total liabilities of associates	**$ 1,193**	**$ 86,310**	**$ 9,372**	**$ 96,875**

As at December 31, 2017:

	TMT	Keli	GQD	Total
Current assets	$ 4,777	$ 140,352	$ 5,269	$ 150,398
Non-current assets	1,801	3,739	2,375	7,915
Total assets of associates	**$ 6,578**	**$ 144,091**	**$ 7,644**	**$ 158,313**
Current liabilities	$ 1,157	$ 114,329	$ 5,438	$ 120,924
Total liabilities of associates	**$ 1,157**	**$ 114,329**	**$ 5,438**	**$ 120,924**

Investments accounted for using the equity method are as follows:

	TMT	Keli	GQD	Total
Carrying value at January 1, 2018	$ 1,785	$ 6,391	$ 457	$ 8,633
Share of results in associates	(40)	13	(1)	(28)
Carrying value at December 31, 2018	**$ 1,745**	**$ 6,404**	**$ 456**	**$ 8,605**
Carrying value at January 1, 2017	$ 1,788	$ 5,178	$ 704	$ 7,670
Share of results in associates	6	1,213	(247)	972
Dividends received from associates	(9)	—	—	(9)
Carrying value at December 31, 2017	**$ 1,785**	**$ 6,391**	**$ 457**	**$ 8,633**

NOTE 12 CATEGORIES OF FINANCIAL INSTRUMENTS

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

Financial Assets	**December 31, 2018**	**December 31, 2017**
Measured at amortized cost		
Cash and cash equivalents	$ 71,015	$ 96,805
Accounts receivable	49,544	46,766
Total financial assets	**$ 120,559**	**$ 143,571**

Financial Liabilities	**December 31, 2018**	**December 31, 2017**
Fair value through profit or loss		
Put option issued to non-controlling interest of Buss & Buss (Derivative liability)	$ 9,525	$ 9,842
Measured at amortized cost		
Current:		
Accounts payable and other accrued charges	59,877	72,250
Bank advances and other short-term debt	3,970	181
	63,847	72,431
Total financial liabilities	**$ 73,372**	**$ 82,273**

12.1 Derivative liability

As at December 31, 2018, Neo's derivative liability is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss Spezialmetalle GmbH ("**Buss & Buss**"). The derivative is measured at fair value.

Buss & Buss put option	**December 31, 2018**	**December 31, 2017**
Opening balance	$ 9,842	$ 9,654
Movement in fair value during the period	(317)	188
Ending balance	**$ 9,525**	**$ 9,842**

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

12.2 Financial assets and liabilities measured at fair value

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

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

The level in which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the consolidated statements of financial position as at December 31, 2018, are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss.	$ —	$ —	$ 9,525

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

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

There have been no transfers between levels for the period ended December 31, 2018.

12.3 Bank advances, short-term loan and debt

12.3.1 Chinese bank advances

As of December 31, 2018, one of the Chinese subsidiaries has line of credit of approximately $7.3 million (Renminbi 50.0 million). No amount was drawn as at December 31, 2018.

12.3.2 German debt facility

As at December 31, 2018, Buss & Buss has an $8.0 million (€7.0 million) revolving line of credit which can be drawn either in Euro or U.S. dollar. The bank is entitled to revise the interest rate if the three-month Euro Interbank Offered Rate ("**Euribor**") average rate changes by more than 0.25%, up to a maximum of 0.1% plus the actual change in average rate.

The security for the revolving line of credit includes a directly enforceable guarantee of the non-controlling shareholder of Buss & Buss amounting to $0.29 million (€0.25 million) as well as a lien amounting to $0.57 million (€0.50 million) on certain property, plant and equipment. The remainder of the revolving line of credit is secured by certain working capital of Buss & Buss.

As at December 31, 2018, $4.0 million (€3.5 million) was drawn from the revolving line of credit.

There are no financial covenants which need to be met.

NOTE 13 OPERATING SEGMENTS

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

A comparative breakdown of business segment information is as follows:

For the year ended December 31, 2018:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 213,712	$ 146,694	$ 93,789	$ —	$ 454,195	$ —	$ 454,195
Inter-segment revenue	—	14,728	—	—	14,728	(14,728)	—
Total revenue	**$ 213,712**	**$ 161,422**	**$ 93,789**	**$ —**	**$ 468,923**	**$ (14,728)**	**$ 454,195**
Operating income (loss)	**$ 41,957**	**$ 12,934**	**$ 4,578**	**$ (17,906)**	**$ 41,563**	**$ 1,325**	**$ 42,888**
Other income							10,660
Finance income, net							649
Foreign exchange loss							(565)
Income from operations before income taxes and equity income (loss) of associates							**$ 53,632**
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	$ 41,957	$ 12,934	$ 4,578	$ (17,906)	$ 41,563	$ 1,325	$ 42,888
Depreciation and amortization	7,344	4,454	4,855	66	16,719	—	16,719
Share and value-based compensation (1)	970	1,095	321	2,959	5,345	—	5,345
Non-recurring transaction cost (2)	212	—	—	1,949	2,161	—	2,161
Adjusted OIBDA (3)	**$ 50,483**	**$ 18,483**	**$ 9,754**	**$ (12,932)**	**$ 65,788**	**$ 1,325**	**$ 67,113**
Capital expenditures	$ 3,920	$ 7,100	$ 2,368	$ 123	$ 13,511	$ —	$ 13,511

Notes:

(1) Represents share and value-based compensation expense in respect of the management incentive plan adopted upon the completion of the Reorganization ("**Legacy Plan**"), the long-term incentive plan ("**LTIP**"), and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation expense of $1.9 million is included in selling, general, and administration expense for the year ended December 31, 2018.

(2) These costs are related to legal, professional advisory fees and other transaction costs primarily related to the Luxfer Transaction as described in Note 28. These charges were included in selling, general, and administration expense.

(3) Certain items are excluded from operating income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

For the year ended December 31, 2017:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 202,905	$ 155,255	$ 76,009	$ —	$ 434,169	$ —	$ 434,169
Inter-segment revenue	—	15,635	—	—	15,635	(15,635)	—
Total revenue	$ 202,905	$ 170,890	$ 76,009	$ —	$ 449,804	$ (15,635)	$ 434,169
Operating income (loss)	**$ 40,986**	**$ 16,892**	**$ 3,935**	**$ (25,644)**	**$ 36,169**	**$ (1,344)**	**$ 34,825**
Other income							1,803
Finance income, net							152
Foreign exchange loss							(466)
Income from operations before income taxes and equity income (loss) of associates							**$ 36,314**
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	$ 40,986	$ 16,892	$ 3,935	$ (25,644)	$ 36,169	$ (1,344)	$ 34,825
Depreciation and amortization	7,074	5,047	5,175	223	17,519	—	17,519
Fair value of inventory release [1]	868	2,463	(419)	—	2,912	—	2,912
Share and value-based compensation [2]	479	892	432	4,840	6,643	—	6,643
Non-recurring transaction cost [3]	—	—	—	5,997	5,997	—	5,997
Adjusted OIBDA [4]	**$ 49,407**	**$ 25,294**	**$ 9,123**	**$ (14,584)**	**$ 69,240**	**$ (1,344)**	**$ 67,896**
Capital expenditures	$ 1,843	$ 6,962	$ 3,474	$ —	$ 12,279	$ —	$ 12,279

Notes:

(1) In accordance with IFRS 3 - Business Combinations, and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of $27.1 million. A portion of this inventory was sold in the year ended December 31, 2017 and had a $2.9 million impact on operating income (loss).

(2) Represents share and value-based compensation expense in respect of the Legacy Plan and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation expense of $0.4 million is included in selling, general, and administration expense for the year ended December 31, 2017.

(3) These costs are related to legal, professional advisory fees and other transaction costs incurred as a result of the IPO by way of Secondary Offering in the year ended December 31, 2017. These charges were included in selling, general, and administration expense.

(4) Certain items are excluded from operating income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

As at December 31, 2018:

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

As at December 31, 2017:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
Total assets	$ 260,826	$ 168,561	$ 100,456	$ 10,649	$ 540,492	$ (1,999)	$ 538,493
Investment in equity method associates	8,633	—	—	—	8,633	—	8,633
Total liabilities	(43,936)	(36,243)	(22,915)	(16,152)	(119,246)	—	(119,246)

The geographic distribution of Neo's revenue based on the location of the customers for the year ended December 31, 2018 and December 31, 2017 is summarized as follows:

Revenue	**Year Ended December 31,**	
	2018	**2017**
Asia:		
China	$ 148,869	$ 142,981
Japan	67,447	66,811
Thailand	16,214	15,320
South Korea	17,811	19,134
North America	72,405	91,292
Europe	119,835	89,621
Other	11,614	9,010
Total	**$ 454,195**	**$ 434,169**

Revenue from one significant customer accounts for $78.7 million and $81.6 million of Neo's total revenue for the year ended December 31, 2018 and December 31, 2017, respectively. Neo defines significant customers as those that are 10% or more of consolidated revenue.

NOTE 14 SUPPLEMENTAL CASH FLOW INFORMATION

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

	Year Ended December 31, 2018	Year Ended December 31, 2017
Decrease (increase) in assets:		
Accounts receivable	$ (5,022)	$ (6,641)
Inventories	(33,462)	(5,322)
Other assets	(6,416)	4,886
Increase (decrease) in liabilities:		
Accounts payable and other accrued charges	(10,979)	14,147
Other liabilities	(1,890)	—
Total net change	**$ (57,769)**	**$ 7,070**

NOTE 15 COMMITMENTS AND CONTINGENCIES

15.1 Lease commitments

Neo's future minimum lease payments are as follows:

	Less than 1 year	1 to 5 years	Greater than 5 years	Total
Future minimum lease payments	$ 2,040	$ 4,157	$ 37	$ 6,234

15.2 Sales and purchase commitments

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

15.3 Legal contingencies

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

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

Of the various lawsuits initiated and underway, in March 2016, the German Court determined that certain of Neo Chemicals & Oxides (Europe) Ltd.'s ("**Neo C&O (Europe)**") products infringed two expired patents of Rhodia Chimie ("**Rhodia**") (European patent #0735984 B1 ("**984**") and European patent #0863846 B1("**846**")), and ordered Neo C&O (Europe) to provide information related to the calculation of damages. The Court also determined that Neo C&O (Europe) infringed a third patent (European patent #0605274 ("**274**")). Neo C&O (Europe) filed an appeal in each of the three infringement actions and those appeals are still pending.

In September 2016, the German Federal Patent Review Court ruled in favor of Neo C&O (Europe), invalidating 274 that it was previously found to infringe. Rhodia has appealed this judgment of invalidity, and its appeal is still pending. In October 2016, the German Federal Patent Court ruled on two other invalidity actions, significantly restricting the claims in 984 and slightly modifying the claims in 846. These two Court judgments are subject to ongoing appeals.

In December 2017, the Regional Court of Mannheim (Germany) determined that certain of Neo C&O (Europe)'s products infringed a German patent (European & UK patents #1435338 B1 ("**338**")), and an injunction prohibiting the sale of affected products into Germany was granted. Neo C&O (Europe) has appealed the decision. In April 2018, the UK Court determined that certain of Neo C&O (Europe)'s products infringed the equivalent UK patent 338. In January 2019, the Federal Patent Court in Munich revoked the German designation of patent 338. Rhodia has agreed to a temporary stay of the Regional Court of Mannheim's judgment of infringement of patent 338, including a stay of the injunction against Neo C&O (Europe) selling its products in Germany, pending the issuance the Federal Patent Court's written opinion. Neo C&O (Europe) has also filed a request to stay enforcement of the judgment of infringement before the Higher Regional Court of Karlsruhe, but the matter has not yet been set for a hearing and no decision has been made on Neo C&O (Europe)'s request for a stay. The revocation decision by the German Federal Patent Court is subject to appeal.

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

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

On September 26, 2018, the PRB again ruled in favor of ZAMR by invalidating all product claims associated with patent ZL 200710146613.6, held by Daiichi Kigenso Kagaku Kogyo Co. ("**DKKK**"). On October 24, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by DKKK and Rhodia Operations alleging infringement of patent ZL 200710146613.6. DKKK and Rhodia Operations have appealed these decisions.

In January, 2019, the PRB ruled in favor of ZAMR by invalidating all patent claims associated with patent ZL 97195463.1. On February 28, 2019, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by Rhodia Operations and DKKK alleging infringement of patent ZL 97195463.1. Rhodia Operations and DKKK have the right to appeal these decisions.

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

Patent Reference	Jurisdiction of Claim	Specified Damages by Claimant
Chinese patent ZL 03817110.4	China	$3.0 million
Chinese patent ZL 200710146613.6	China	$2.3 million
European patent 0863846 B1	Germany	$8.4 million
European patent 0735984 B1	Germany	$6.1 million
Chinese patent ZL 94194552.9	China	$0.8 million
Chinese patent ZL 96196505.3	China	$6.8 million
Chinese patent ZL 97195463.1	China	$0.8 million
European & UK patents 1435338 B1	UK	Not specified
European & UK patents 1435338 B1	Germany	Not specified
European patent 0605274 B1	Germany	Not specified
European patent 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified

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

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

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

NOTE 16 SHARE CAPITAL

	December 31, 2018	December 31, 2017
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	39,650,340	39,921,577
Total treasury shares	—	—

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

Normal Course Issuer Bid

On March 19, 2018, Neo announced that the Toronto Stock Exchange (the "**TSX**") has accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**Bid**") for up to 1,996,078 of its issued and outstanding Common Shares. In connection with the Bid, Neo has entered into an automatic share purchase plan with its designated broker to allow for purchases of its Shares (the "**Share Purchase Plan**"). The Share Purchase Plan is considered an "automatic plan" for purposes of applicable Canadian securities laws. Under the Share Purchase Plan, Neo's broker may purchase Shares on any trading day during the Bid, including during self-imposed trading blackout periods. The price that Neo will pay for any Shares purchased under the Bid will be the prevailing market price at the time of purchase. Any Shares purchased by Neo will be canceled.

For the year ended December 31, 2018, Neo repurchased and canceled 321,222 Shares for a total consideration of $3.8 million.

Subsequent to the Luxfer Transaction as described in Note 28, the Share Purchase Plan was automatically terminated.

NOTE 17 EARNINGS PER SHARE

17.1 Basic earnings per share

The calculation of basic earnings per share was based on net income attributable to equity holders of Neo for the year ended December 31, 2018, and December 31, 2017. The weighted average number of shares outstanding is calculated as follows:

	Year Ended December 31,	
	2018	**2017**
Common shares issued at beginning of period	39,921,577	39,630,244
Weighted average impact of:		
Issuance of common shares	17,932	170,572
Repurchase and cancellation of common shares under Normal Course Issuer Bid	(87,320)	—
Weighted average number of common shares for the period - basic	**39,852,189**	**39,800,816**

17.2 Diluted earnings per share

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

	Year Ended December 31,	
	2018	**2017**
Net income attributable to equity holders of Neo Performance Materials Inc. - basic and diluted	$ 40,795	$ 24,620

	Year Ended December 31,	
	2018	**2017**
Weighted average number of common shares - basic	39,852,189	39,800,816
Dilutive effect of Stock Units	515,818	485,586
Weighted average number of common shares - diluted	**40,368,007**	**40,286,402**

	Year Ended December 31,	
	2018	**2017**
Earnings per share - basic	$ 1.02	$ 0.62
Earnings per share - diluted	$ 1.01	$ 0.61

For the year ended December 31, 2018, 915,815 (2017: 915,815) equity-settled PSUs and nil (2017: 183,367) equity-settled Special PSUs were excluded from the dilutive weighted-average number of ordinary shares calculation as they are contingently issuable upon a liquidity event occurring and achieving certain shareholders' internal milestones which were not met at December 31, 2018, and all equity-settled Special PSUs were terminated as at December 31, 2018 as the liquidity event condition was not met. In addition, for the year ended December 31, 2017, 16,489 equity-settled RSUs were excluded from the computation of dilutive earnings per share as they were anti-dilutive and no equity-settled RSUs were excluded in 2018.

NOTE 18 OTHER INCOME (EXPENSES)

Other income (expenses) are consist of the following:

	December 31, 2018	**December 31, 2017**
Recovery from insurance claims	11,769	2,209
Retroactive duty charges	(2,006)	—
Others	897	(406)
Total	**$ 10,660**	**$ 1,803**

NOTE 19 INCOME TAXES

19.1 Income Tax Expense

	Year Ended December 31,	
	2018	2017
Current tax expense (benefit)		
Current year	$ 14,800	$ 14,215
Adjustments in respect of prior years	(702)	(2,598)
Total current tax expense	14,098	11,617
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	(1,633)	276
Total income tax expense	**$ 12,465**	**$ 11,893**

19.2 Reconciliation of effective tax rate

	Year Ended December 31,	
	2018	2017
Income (loss) from operations before taxes and equity income of associates	$ 53,632	$ 36,314
Income tax expense at Neo's statutory income tax rate of 26.5% (2017 - 26.5%)	14,212	9,623
Impact of countries with different tax rates	(10,295)	(4,576)
Effect of changes in tax rates	—	2,946
Losses and deductible temporary differences for which no deferred tax asset has been recognized	4,868	154
Current tax benefit with respect to prior years	(702)	(2,598)
Foreign withholding taxes	3,260	4,464
Deferred tax expense (benefit) on foreign exchange translation of non-monetary items	751	(982)
Expenses not deductible for tax purposes	671	3,468
Other	(300)	(606)
Total income tax expense	**$ 12,465**	**$ 11,893**

19.3 Unrecognized deferred tax assets

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

	Year Ended December 31,	
	2018	2017
Deductible temporary differences	$ 33,563	$ 27,696
Tax losses	144,915	131,609
	$ 178,478	**$ 159,305**

Tax losses for which no deferred tax asset was recognized that will not expire totaled $2.1 million while $67.9 million expire between 2019 and 2022 and $74.9 million expire between 2023 and 2038.

19.4 Unrecognized deferred tax liabilities

At December 31, 2018 taxable temporary differences of $47.0 million related to the investment in subsidiaries were not recognized because the Company controls the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

19.5 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Year Ended December 31,	
	2018	2017
Deferred Tax Assets		
Inventory	$ 2,102	$ 2,500
Property, plant and equipment and intangible assets	21	354
Deferred compensation and retirement benefits	117	98
Net operating losses	538	10
Other	1,240	1,676
Deferred Tax Liabilities		
Inventory	(309)	(114)
Property, plant and equipment and intangible assets	(15,180)	(16,813)
Undistributed foreign subsidiary earnings	(5,001)	(6,511)
Other	(179)	—
Deferred tax liabilities - net	**$ (16,651)**	**$ (18,800)**

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

	Year Ended December 31,	
	2018	2017
Deferred tax assets	$ 1,079	$ 1,406
Deferred tax liabilities	(17,730)	(20,206)
Deferred tax liabilities - net	**$ (16,651)**	**$ (18,800)**

Movement in net deferred tax liabilities:

	Year Ended December 31,	
	2018	2017
Balance at the beginning of the period	$ (18,800)	$ (18,101)
Recognized in profit or loss	1,633	(276)
Other	516	(423)
Balance at the end of the period	**(16,651)**	**(18,800)**

NOTE 20 SHARE-BASED COMPENSATION

The Neo Cayman management incentive plan was assigned to Neo upon the completion of the Arrangement. This plan, **(**the "**Legacy Plan**"**)**, was comprised of Share Options ("**Options**"), Restricted Share Units ("**RSUs**"), Performance Stock Units ("**PSUs**") and Special Performance Stock Units ("**Special PSUs**") (collectively referred to as "**Stock Units**"). These Stock Units were granted under the Legacy Plan to directors, officers, and employees, and provide the right for these individuals to receive cash or Common Shares or in the case of the options, purchase Common Shares. Options and RSUs vest at a rate of 25% per year but also vest immediately if a liquidity event occurs, which is defined as consummation of a transaction or series of related transactions that results in Oaktree, ceasing to own at least 51% of the shares of Neo. PSUs and Special PSUs vest in segments upon a liquidity event occurring and achieving Oaktree's internal milestones.

In connection with the Arrangement, Neo has undertaken to issue Shares for the underlying Stock Units, applying the exchange ratio in connection with the Arrangement. On October 13, 2017, Neo adopted a Stock Option Plan, in conjunction with the Initial Public Offering.

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

Equity settled share-based compensation	Options	RSUs	PSUs	Special PSUs
Outstanding, January 1, 2018	1,098,708	276,103	915,815	183,367
Granted	60,004	—	—	—
Exercised	—	(86,540)	—	—
Expired	—	—	—	(183,367)
Outstanding, December 31, 2018	1,158,712	189,563	915,815	—
Exercisable, December 31, 2018	549,354	—	—	—
Weighted average exercise price, December 31, 2018	$ 9.37	$ —	$ —	$ —
Weighted average remaining contractual life, December 31, 2018	7.62 years	1.67 years	—	—

Cash settled share-based compensation	RSUs	PSUs	Special PSUs	DSUs
Outstanding, January 1, 2018	—	—	—	—
Granted	74,244	20,002	7,660	20,051
Exercised	(3,517)	—	—	—
Expired	—	—	(7,660)	—
Outstanding, December 31, 2018	70,727	20,002	—	20,051
Weighted average remaining contractual life, December 31, 2018	3.50 years	2.08 years	—	—

The following table illustrates the inputs used in the measurement of the grant date fair values of the share-based compensation plans granted during the year ended December 31, 2018 and the year ended December 31, 2017:

	Options	RSUs	PSUs	Special PSUs
Valuation model and key assumptions at December 16, 2016 and January 17, 2018 grant dates:				
Grant date fair value	$ 7.40	$ 32.90	$ 16.54	$ 19.09
Dividend yield	—%	—%	—%	—%
Expected volatility	57.7%	57.7%	57.7%	57.7%
Risk-free interest rate	0.6%	0.6%	0.6%	0.6%
Share price	$ 39.97	$ 39.97	$ 39.97	$ 39.97
Forfeiture rate - service condition	—%	—%	—%	—%
Forfeiture rate - non-market condition				100%

	Options	RSUs	PSUs	Special PSUs
Valuation model and key assumptions at September 1, 2017 grant date:				
Grant date fair value		$ 48.79		
Dividend yield		—%		
Expected volatility		32.9%		
Risk-free interest rate		1.3%		
Share price		$ 55.00		

	Options	RSUs	PSUs	DSUs
Valuation model and key assumptions at September 12, 2018 grant date:				
Grant date fair value	$ 3.93	$ 13.85	$ 10.35	$ 13.85
Dividend yield	2.15%	—%	—%	—%
Expected volatility	38.1%	—%	27.4%	—%
Risk-free interest rate	2.78%	—%	2.1%	—%
Share price	$ 13.55	$ —	$ 13.55	$ —
Forfeiture rate - service condition	—%	—%	—%	—%

The following table shows the share-based compensation expense recorded in the consolidated statements of profit or loss:

	Year Ended December 31,	
	2018	2017
Options	$ 539	$ 1,497
RSUs	1,393	1,847
PSUs	1,350	2,524
Special PSUs	(72)	373
DSUs	226	—
Total	**$ 3,436**	**$ 6,241**

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

	December 31, 2018	December 31, 2017
Accounts payable and other accrued charges	$ 672	$ —
Contributed surplus	8,956	$ 6,241
Total	**$ 9,628**	**$ 6,241**

The following table shows the fair value of share-based instruments granted during the year:

	2018	2017
Options	$ 236	$ 330
RSUs	838	1,261
PSUs	226	579
Special PSUs	—	90
DSUs	226	—
Total	**$ 1,526**	**$ 2,260**

NOTE 21 RELATED PARTY TRANSACTIONS

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

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

21.1 Transactions with associates

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

For the year ended December 31, 2018, Neo purchased $1.8 million worth of compounds from TMT, purchased metals and received services from Keli amounting to $64.7 million, and received services from GQD amounting to $0.9 million.

For the year ended December 31, 2018, Neo sold Magnequench Powders and performed services, amounting to $2.7 million to TMT, as well as sold rare earth oxides to Keli amounting to $4.1 million.

For the year ended December 31, 2017, Neo purchased $1.9 million worth of compounds from TMT, purchased metals and received services from Keli amounting to $67.8 million, and received services from GQD amounting to $1.0 million. For the year ended December 31, 2017, Neo sold Magnequench Powders and performed services amounting to $2.8 million to TMT.

21.2 Transactions with joint venturers

Neo, through its sales company in Japan, Neo Japan Inc., has occasionally purchased Gallium from Beijing Jiya Semiconductor Material Co., Ltd. ("**Beijing Jiya**") for resale to third party customers. For the year ended December 31, 2018 and the year ended December 31, 2017, these purchases were $0.7 million and $0.5 million, respectively.

Neo also has occasionally purchased and sold products from and to Ganzhou Qian Dong Rare Earth Group Co. Ltd. ("**Qian Dong**") and Toda Kogyo Corp. ("**Toda**"). For the year ended December 31, 2018, purchases from Qian Dong were $0.4 million. Sales to Toda for the year ended December 31, 2018, were $1.0 million. There were no transactions with Qian Dong and Toda for the year ended December 31, 2017.

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

	Year Ended December 31, 2018	Year Ended December 31, 2017
Sale of goods and services to related parties	$ 7,804	$ 2,815
Purchase of goods and services from related parties	68,585	71,097

	December 31, 2018	December 31, 2017
Trade balances:		
from related parties	$ 327	$ 160
due to related parties	(5,102)	(9,698)
Total	**$ (4,775)**	**$ (9,538)**

NOTE 22 DIRECTORS AND KEY MANAGEMENT COMPENSATION

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

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

	Year Ended December 31,	
	2018	2017
Directors	$ 282	$ 227
Key Executive Management	4,389	4,209
Total	$ 4,671	$ 4,436

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

	Year Ended December 31,	
	2018	2017
Directors	$ 405	$ 647
Key Executive Management	3,093	4,877
Total	$ 3,498	$ 5,524

NOTE 23 SALARIES EXPENSE

The employee salaries included in cost of sales, selling, general and administrative, research and development expenses are $49.1 million and $46.6 million for the year ended December 31, 2018 and December 31, 2017, respectively.

NOTE 24 EMPLOYEE BENEFITS

24.1 Defined benefit pension plan and other post-retirement benefits

Neo had a defined benefit pension plan which covered all hourly employees employed as at September 30, 1995 and all hourly employees subsequently hired by Neo up to March 1, 2002, at Neo's former manufacturing facility in Anderson, Indiana. There are no active participants in the plan. A December 31 measurement date is used for the plan. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2018 and the next funding valuation will be as of January 1, 2019.

It is Neo's policy to make contributions to this plan that meets the funding requirements of applicable laws and regulations, plus such additional amounts as deemed appropriate. Neo contributed $0.2 million during the year ended December 31, 2018, and $0.3 million during the year ended December 31, 2017. Investment policies for the plan are consistent with Neo's investment philosophy to reduce exposure to equity market risks. A pension asset investment committee meets periodically to review asset allocation percentages and investment goals. At December 31, 2018 and December 31, 2017, the U.S. plan's assets consist of the following:

	December 31, 2018	December 31, 2017
Interest-bearing cash	4.5%	3.9%
Fixed income securities	46.8%	41.3%
Equities	43.5%	49.6%
Others	5.2%	5.2%

Neo also provides postretirement health benefits to certain of its former employees from the Anderson, Indiana manufacturing facility, which closed in 2002. The measurement date used for postretirement benefit plans is December 31. Measurement of the defined benefit obligation ("**DBO**") at December 31, 2018 and December 31, 2017 was based on a weighted-average discount rate of 3.95% and 3.30%, respectively.

The following table sets forth details of Neo's components of defined benefit cost related to its U.S. pension and postretirement benefit plans for the year ended December 31, 2018, and December 31, 2017:

Included in net loss	**Pension**		**Postretirement**		**Total**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Net interest cost	$ 78	$ 100	$ 3	$ 4	$ 81	$ 104
Administrative expenses	30	—	—	—	30	—
Defined benefit cost included in profit or loss	**$ 108**	**$ 100**	**$ 3**	**$ 4**	**$ 111**	**$ 104**

Remeasurement loss (gain) included in other comprehensive income	**Pension**		**Postretirement**		**Total**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Actuarial loss (gain) arising from:						
Demographic assumptions	$ (19)	$ (68)	$ —	$ (1)	$ (19)	$ (69)
Financial assumptions	(513)	454	(4)	2	(517)	456
Experience adjustments	(6)	1	1	1	(5)	2
Return on plan assets (excluding interest income)	357	(449)	—	—	357	(449)
Total remeasurement loss (gain) recognized in other comprehensive income	**$ (181)**	**$ (62)**	**$ (3)**	**$ 2**	**$ (184)**	**$ (60)**

The following table sets forth details of Neo's changes in the defined benefit obligation, plan assets and accrued pension and postretirement benefits as at December 31, 2018 and December 31, 2017:

Present value of defined benefit obligation	**Pension**		**Postretirement**		**Total**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Benefit obligation at the beginning of the period	$ 8,015	$ 7,812	$ 100	$ 102	$ 8,115	$ 7,914
Service cost	—	—	—	—	—	—
Interest expense	276	306	3	4	279	310
Actuarial loss (gain) recognized in equity	(538)	387	(3)	2	(541)	389
Benefits paid	(487)	(490)	(8)	(8)	(495)	(498)
Benefit obligation at end of year	$ 7,266	$ 8,015	$ 92	$ 100	$ 7,358	$ 8,115
Unfunded	$ —	$ —	$ 92	$ 100	$ 92	$ 100
Partly or wholly funded	$ 7,266	$ 8,015	$ —	$ —	$ 7,266	$ 8,015

Fair value of plan assets	**Pension**		**Postretirement**		**Total**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Fair value of plan assets at the beginning of the period	$ 5,678	$ 5,249	$ —	$ —	$ 5,678	$ 5,249
Return on plan assets (excluding interest income)	(357)	449	—	—	(357)	449
Employer contribution	231	264	8	8	239	272
Interest income	198	206	—	—	198	206
Administrative expenses	(30)	—	—	—	(30)	—
Benefits paid	(487)	(490)	(8)	(8)	(495)	(498)
Fair value of plan assets at end of year	$ 5,233	$ 5,678	$ —	$ —	$ 5,233	$ 5,678
Net defined benefit obligation	**$ 2,033**	**$ 2,337**	**$ 92**	**$ 100**	**$ 2,125**	**$ 2,437**

The following table sets forth significant actuarial assumptions used in measuring Neo's pension and other benefit obligations and expense as at December 31, 2018 and December 31, 2017:

	Pension benefit plans		**Other benefit plans**	
	2018	**2017**	**2018**	**2017**
Actuarial assumptions				
Discount rate	4.15%	3.55%	3.95%	3.30%
Health care cost trend rate	N/A	N/A	None	None

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

	Pension benefit plans		Other benefit plans	
Assumed life expectations on retirement at age 65	**2018**	**2017**	**2018**	**2017**
Retiring today (member age 65)				
Males	19.6	19.7	19.6	19.7
Females	22.1	22.2	22.1	22.2
Retiring in 25 years (member age 40 today)				
Males	21.7	21.8	21.7	21.8
Females	24.2	24.2	24.2	24.2

At December 31, 2018 and December 31, 2017, the weighted-average duration of the defined benefit obligation was 11.1 and 11.9 years, respectively.

	Pension benefit plans		Other benefit plans	
	2018		2018	
	Increase	**Decrease**	**Increase**	**Decrease**
Sensitivity analysis				
Discount rate (1% movement)	$ (732)	$ 892	$ (6)	$ 7

	Pension benefit plans		Other benefit plans	
	2017		2017	
	Increase	**Decrease**	**Increase**	**Decrease**
Sensitivity analysis				
Discount rate (1% movement)	$ (864)	$ 1,066	$ (7)	$ 8

The expected rate of return on plan assets is based on the discount rate at the measurement date.

24.2 Defined contribution retirement benefits

Neo sponsors a defined contribution 401(k) retirement plan available to substantially all U.S. salaried employees and contributes up to 9% of salaried employees' compensation to the plan. Neo's contributions to the plan during the year ended December 31, 2018 and the year ended December 31, 2017 were consistent at approximately $0.2 million. Neo has a similar defined contribution plan available to all Canadian salaried employees and contributes up to 5% of salaried employees' compensation to the plan. Neo's contribution to the plan during the year ended December 31, 2018 and the year ended December 31, 2017 were consistent at $0.1 million.

NOTE 25 PROVISIONS

Neo's NPM Silmet OÜ facility in Estonia, in its normal operation, generates hazardous and naturally occurring radioactive materials ("**NORM**"). These materials are stored at the site.

	December 31, 2018		December 31, 2017	
Opening balance	$	4,665	$	4,350
Additional provision recorded during the period		52		315
Ending balance	**$**	**4,717**	**$**	**4,665**

As at December 31, 2017, Neo recorded a provision of $4.7 million for the disposal of the NORM and other related costs, in accordance with local regulations. An additional provision of $0.1 million was recorded in 2018, bringing the balance to $4.7 million as at December 31, 2018. This amount represents management's best estimate of the costs to be incurred by Neo to settle the obligation.

NOTE 26 FINANCIAL RISK MANAGEMENT

In the normal course of operations, Neo is exposed to a number of different financial risks. These risk factors include market risks such as foreign exchange risk, interest rate risk, other price risk, as well as credit risk and liquidity risk.

26.1 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, equity prices and interest rates will affect Neo's net earnings or the value of financial instruments. The objective of market risk management is to mitigate exposures within acceptable limits, while maximizing returns.

26.2 Foreign currency exchange risk

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

- Translation of foreign currency denominated revenue and expenses into U.S. dollars, the currency in which Neo reports in – When the foreign currency changes in relation to the U.S. dollar, income reported in U.S. dollars will change. The impact of weakening foreign currency in relation to the U.S. dollar for foreign currency denominated revenue and expenses will result in higher net income because Neo has more foreign currency-based expenses than revenue.

- Translation of foreign currency denominated debt and other monetary items – A weakening foreign currency in respect of Neo's foreign currency denominated debt will decrease the debt in U.S. dollar terms and generate a FX gain on bank advances and other short-term debt, which is recorded in income. Neo calculates FX on the short-term debt using the difference in FX rates at the beginning and at the end of each reporting period. Other foreign currency denominated monetary items will also be impacted by changes in FX rates.

The following table summarizes in U.S. dollar equivalents Neo's major currency exposures as of December 31, 2018:

	Chinese Renminbi	Euro	USD	Thai Baht	Canadian Dollar	British Pound
Cash and cash equivalents	$ 7,247	$ 738	$ 8,665	$ 2,517	$ 3,252	$ 122
Accounts receivable	1,882	232	2,163	1,653	—	8
Other receivable	—	1,108	—	2,679	250	—
Bank advances and other short-term debt	—	(1,242)	—	—	—	—
Accounts payable and accrued liabilities	(8,440)	(11,666)	(25)	(1,323)	(607)	(642)
Income taxes payable	(564)	(3)	—	(254)	(576)	—
Net financial assets (liabilities)	**$ 125**	**$(10,833)**	**$10,803**	**$ 5,272**	**$ 2,319**	**$ (512)**

The following table shows the impact of a one-percentage point strengthening or weakening of foreign currencies against the U.S. dollar as of December 31, 2018 for Neo's financial instruments denominated in non-functional currencies:

	Chinese Renminbi	Euro	Thai Baht	Canadian Dollar	British Pound
1% Strengthening					
Net earnings before tax	$ 1	$ (108)	$ 53	$ 23	$ (5)
1% Weakening					
Net earnings before tax	(1)	108	(53)	(23)	5

The effect on profit or loss of a one-percentage point strengthening or weakening of U.S. dollar financial assets and liabilities held in non-U.S. dollar functional currency subsidiaries is a $36 thousand gain or loss, respectively.

26.3 Interest rate risk

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

As at December 31, 2018, Neo has no outstanding bank loans and did not draw from the line of credit, and thus does not have significant exposure to interest rate fluctuations.

26.4 Credit risk

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

Under IFRS 9, Neo establishes a loss allowance using the ECL impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at December 31, 2018, Neo recorded a loss allowance of $0.1 million. The estimated credit losses, if any, is included in selling, general and administrative expenses in the consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

The movement in the allowance for impairment in respect to accounts receivable during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment loss under IAS 39.

	December 31, 2018	December 31, 2017
Opening balance	$ 136	$ 156
Net remeasurement of loss allowance	(6)	(20)
Ending balance	**$ 130**	**$ 136**

Counterparties to financial instruments may expose Neo to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at December 31, 2018, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

26.5 Liquidity risk

Liquidity risk is the risk that Neo will not be able to meet its financial obligations as they fall due. Neo manages liquidity risk through the management of its capital structure, as outlined in Note 27**.** It also manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account Neo's sales and receipts and matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves Neo's annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisitions and other major investments.

The following table reflects the contractual maturity of Neo's financial liabilities as at December 31, 2018:

Financial liabilities	1 year	2-3 years	4-5 years	Beyond 5 years	Total
Bank advances and other short-term debts	$ 3,970	$ —	$ —	$ —	$ 3,970
Accounts payable and other accrued charges	59,877	—	—	—	59,877
Derivative liability*	—	—	—	9,525	9,525
Provisions	—	4,717	—	—	4,717
Other liabilities	777	559	—	—	1,336
Total	**$64,624**	**$ 5,276**	**$ —**	**$ 9,525**	**$79,425**

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

NOTE 27 CAPITAL DISCLOSURES

Neo's objectives when managing its capital are:

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

Neo defines its capital as follows:

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

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

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

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

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

NOTE 28 SUBSEQUENT EVENTS

2019 Q1 Dividends

On February 28, 2019, the Board of Directors declared a quarterly dividend of Cdn $0.095 per Common Share payable in cash on March 29, 2019, to common shareholders of record at the close of business on March 20, 2019.

Business Combination

On December 18, 2018, Neo entered into an arrangement agreement (the "**Arrangement Agreement**") with Luxfer Holdings plc ("**Luxfer**") and 2671219 Ontario Inc. (the "**Purchaser**"), a wholly-owned subsidiary of Luxfer, pursuant to which, the Purchaser would acquire the issued and outstanding Common Shares for a combination of cash and stock (the "**Luxfer Transaction**"). On March 10, 2019, Luxfer and Neo mutually agreed to terminate the Luxfer Transaction.