MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE YEAR ENDED DECEMBER 31, 2020

Management's Discussion and Analysis

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Unless otherwise noted, all amounts in this discussion are expressed in United States dollars

The following Management's Discussion and Analysis ("**MD&A**") for Neo Performance Materials Inc. ("**Neo**") should be read in conjunction with the accompanying audited consolidated financial statements and related notes thereto for the year ended December 31, 2020 available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com. Unless otherwise stated, references in this section to "Neo", "our", "we" or "Group", refer to Neo Performance Materials Inc. and its consolidated subsidiaries.

The financial results presented in this MD&A are prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board *(*"**IASB**"*)*. "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Net Income or Loss", "Adjusted Earnings per Share", "EBITDA", "Free Cash Flow", and "Free Cash Flow Conversion" are not measures recognized under IFRS and do not have any standardized meaning prescribed by IFRS. These measures may differ from those used by other companies, and are not necessarily comparable to similar measures presented by other companies. There are no directly comparable IFRS measures to any of these measures. These measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. See "*Management's Discussion and Analysis - Non-IFRS Financial Measures*" below.

This discussion contains forward-looking statements and information. The actual results, performance and achievements could differ materially from those implied by these forward-looking statements as a result of various factors, including those discussed below, particularly under "*Risk Factors*". See "*Forward-Looking Information*".

The discussion and analysis in this MD&A are based upon information available to management as of March 19, 2021. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur that could affect Neo in the future.

1. Forward-Looking Information

The following discussion and analysis contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to future events or future performance of Neo. All statements in this disclosure, other than statements of historical facts, with respect to Neo's objectives and goals, as well as statements with respect to its beliefs, plans, objectives, expectations, anticipations, estimates, and intentions are forward-looking information. Specific forward-looking statements in this discussion include, but are not limited to the following: expectations regarding certain of Neo's future results and information, including, among other things: revenue, expenses, revenue growth, capital expenditures, and operations; statements with respect to expected use of cash balances; continuation of prudent management of working capital; source of funds for ongoing business requirements and capital investments; expectations regarding sufficiency of the allowance for uncollectible accounts and inventory provisions; analysis regarding sensitivity of the business to changes in exchange rates; impact of recently adopted accounting pronouncements; risk factors relating to intellectual property protection and intellectual property litigation; risk factors relating to national or international economies (including the impact of COVID-19), and other risks present in the jurisdictions in which Neo, its customers, its suppliers, and/or its logistics partners operate, and; expectations concerning any remediation efforts to Neo's design of its internal controls over financial reporting and disclosure controls and procedures. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or can state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. This information involves known and unknown risks and uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Neo believes the expectations reflected in such forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this discussion and analysis should not be unduly relied upon. For more information on Neo, investors should review Neo's continuous disclosure filings that are available under its profile at www.sedar.com.

The forward-looking information is only provided as of the date of this MD&A, March 19, 2021, and is subject to change as a result of new information, future events or other circumstances, as discussed above, in which case the forward-looking information will be updated by Neo as required by law.

2. Overview

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

Neo has approximately 1,800 employees and has a global platform that includes 10 manufacturing facilities located in China, the United States ("**U.S.**"), Germany, Canada, Estonia, Thailand and South Korea, as well as two dedicated research and development ("**R&D**") centres in Singapore and the United Kingdom ("**UK**"). Since 1994, Neo has leveraged its processing expertise to innovate and grow into a leading manufacturer of advanced industrial materials for specialty end markets. Neo has established itself as a leading commercial partner to some of the world’s largest customers in the automotive, semiconductor, advanced electronic and specialty chemical industries. As a result, Neo is well positioned in markets that are forecast to see robust, long-term growth driven by multiple global macro trends, such as vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and superalloys. Neo identifies growth markets driven by global macro trends such as these, and produces highly engineered industrial materials that are critical to the performance of applications in those markets.

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

Magnequench

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

C&O

The C&O segment manufactures and distributes a broad range of advanced industrial materials that have become an indispensable part of modern life. Neo's world-class processing and advanced materials manufacturing capabilities enable Neo to meet increasingly demanding specifications from manufacturers that need custom engineered materials. Applications from these products include automotive catalysts, permanent magnetics, consumer electronics, petroleum refining catalysts, medical devices, and wastewater treatment.

Rare Metals

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

Corporate

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

3. Selected Financial Highlights

($000s, except volume)	Year Ended December 31,			Three Months Ended December 31,		
	2020	2019	2018	2020	2019	2018
Revenue						
Magnequench	$ 152,966	$ 173,800	$ 213,712	$ 52,553	$ 42,748	$ 47,210
C&O	143,322	158,226	161,422	48,433	33,650	38,207
Rare Metals	59,688	90,622	93,789	12,096	21,564	27,309
Corporate / Eliminations	(9,284)	(15,184)	(14,728)	(2,685)	(3,409)	(3,365)
Consolidated Revenue	**$ 346,692**	**$ 407,464**	**$ 454,195**	**$ 110,397**	**$ 94,553**	**$ 109,361**
Operating Income (Loss)						
Magnequench	$ 20,027	$ 28,987	$ 41,957	$ 8,102	$ 7,207	$ 6,670
C&O	(26,505)	18,354	12,934	5,124	2,898	3,101
Rare Metals	(30,006)	(384)	4,578	(4,209)	(15)	438
Corporate / Eliminations	(19,175)	(9,455)	(16,581)	(5,827)	(3,076)	(3,985)
Consolidated Operating Income (Loss)	**$ (55,659)**	**$ 37,502**	**$ 42,888**	**$ 3,190**	**$ 7,014**	**$ 6,224**
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") (1)						
Magnequench	$ 29,928	$ 37,053	$ 50,483	$ 11,404	$ 9,545	$ 9,051
C&O	13,950	22,872	18,483	7,103	4,417	4,569
Rare Metals	(2,189)	5,132	9,754	(3,297)	1,181	1,702
Corporate / Eliminations	(12,815)	(11,301)	(11,607)	(2,902)	(2,663)	(2,087)
Consolidated Adjusted EBITDA	**$ 28,874**	**$ 53,756**	**$ 67,113**	**$ 12,308**	**$ 12,480**	**$ 13,235**
Volume (in mt)						
Magnequench	5,016	5,584	6,128	1,626	1,387	1,446
C&O	7,348	7,841	7,611	2,018	1,940	1,843
Rare Metals	412	534	650	89	128	227
Corporate / Eliminations	(210)	(360)	(306)	(50)	(84)	(77)
Consolidated Volumes	**12,566**	**13,599**	**14,083**	**3,683**	**3,371**	**3,439**
Net (Loss) Income	**$ (60,089)**	**$ 23,075**	**$ 41,139**	**$ 2,356**	**$ 4,483**	**$ 4,381**
Attributable to:						
Equity holders of Neo	(57,931)	22,920	40,795	2,219	4,639	4,285
Non-controlling interest	(2,158)	155	344	137	(156)	96
(Loss)/Earnings per share attributable to equity holders of Neo						
Basic	$ (1.54)	$ 0.59	$ 1.02	$ 0.06	$ 0.12	$ 0.11
Diluted	$ (1.54)	$ 0.59	$ 1.01	$ 0.06	$ 0.12	$ 0.11
Adjusted Net Income (2)	**$ 6,165**	**$ 24,099**	**$ 38,923**	**$ 9,583**	**$ 6,117**	**$ 7,497**
Attributable to:						
Equity holders of Neo	6,056	23,944	38,579	9,446	6,273	7,401
Non-controlling interest	109	155	344	137	(156)	96
Adjusted Earnings per Share attributable to equity holders of Neo (2):						
Basic	$ 0.16	$ 0.62	$ 0.97	$ 0.25	$ 0.17	$ 0.19
Diluted	$ 0.16	$ 0.61	$ 0.96	$ 0.25	$ 0.16	$ 0.18
Capital expenditures excluding business combination	$ 7,614	$ 11,723	$ 13,511	$ 1,178	$ 3,742	$ 4,760
Cash taxes paid	$ 8,641	$ 14,314	$ 13,169	$ 653	$ 3,522	$ 3,219
Dividends paid to shareholders	$ 11,297	$ 11,481	$ 11,714	$ 2,924	$ 2,856	$ 2,855
Repurchase of common shares under Normal Course Issuer Bid	$ 3,090	$ 16,917	$ 3,771	$ 1,034	$ 3,704	$ 1,886

	December 31,		
	2020	2019	2018
Cash and cash equivalents	$ 72,224	$ 84,735	$ 71,015
Debt	$ 2,428	$ 54	$ 3,970

Notes:

(1) See *"Non-IFRS Financial Measures"* and details of computation of Adjusted EBITDA.

(2) See *"Non-IFRS Financial Measures"* for computations of Adjusted Net Income or Loss and Adjusted Earnings per Share.

Highlights for the year ended and three months ended December 31, 2020

Consolidated Results

- For the year ended December 31, 2020, revenues of $346.7 million were 14.9% lower than in 2019. All three segments experienced significant decreases in revenues as volumes were adversely affected by slower economic activities, including impacts due to the COVID-19 pandemic. For the three months ended December 31, 2020, revenues of $110.4 million increased by 16.8% compared to the prior year, which can be attributed to a rebound in automotive and industrial end markets in the latter portion of 2020.

- Neo reported an operating loss of $55.7 million and a net loss of $60.1 million for the year ended December 31, 2020. Operating loss and net loss were mainly caused by the $59.1 million impairment of assets in the C&O and Rare Metals segments. Net operating income was $3.2 million in the three months ended December 31, 2020 compared to $7.0 million in the same period of 2019. Operating income in the three months ended December 31, 2020 was higher in Magnequench and C&O but lower in Rare Metals.

- Operationally, for the year ended December 31, 2020, the most significant impact to financial performance is from lower volumes across all three business units, which can largely be attributed to COVID-19 and the impact to customer demand across the supply chain. All three business units engaged in various cost-cutting initiatives including shortening shifts, temporarily idling certain facilities, reducing project costs and executing on other working capital reduction initiatives. Volumes and economic activity began to recover in the latter half of the third quarter and continued into the fourth quarter for both the Magnequench and C&O segment whilst the aerospace market for the Rare Metals segment exhibited less recovery. In the three months ended December 31, 2020, the Magnequench and C&O segment saw broad volume recoveries across key areas such as traction motors and environmental catalysts for automotive.

- Aside from the volume impact from COVID-19, the Magnequench segment saw growth and progress in its strategy to increase magnet-making capability and sales. The C&O segment saw an increase in rare earth prices starting in the third quarter of 2020 and continuing throughout the three months ended December 31, 2020 but was adversely affected by lower spot sales and increased legal costs for ongoing intellectual property disputes. The Rare Metals segment saw decreased margins in its products primarily related to demand weakness and price decreases and recorded a $3.3 million inventory write-down in the three months ended December 31, 2020.

- Adjusted EBITDA for the year ended December 31, 2020 was $28.9 million, a decrease of $24.9 million compared to 2019. Adjusted EBITDA for the three months ended December 31, 2020 was $12.3 million compared to $12.5 million in the same period of the prior year. Similar to net operating income, in the three months ended December 31, 2020, Magnequench and C&O Adjusted EBITDA increased over the prior year whilst Rare Metals Adjusted EBITDA was lower.

- Neo continues to see longer-term growth in demand for many of its key products driven by several global macro trends, including increased electrification of automobiles, which increases the need for Neo's functional materials on a per-vehicle basis; greater demand for precision and efficient motors across multiple sectors, which encourages higher utilization of Neo's magnetic materials; growth in hybrid and electric vehicles; more stringent government regulation with respect to air and water emissions; and trends toward greater utilization of lighter-weight materials in industries such as aerospace and consumer electronics. Neo's advanced industrial materials are integral to technologies in all these end markets.

Magnequench Segment

- Operating income for the year ended December 31, 2020 was $20.0 million, a decrease of $9.0 million compared to the year ended December 31, 2019. For the year ended December 31, 2020, Adjusted EBITDA in the Magnequench segment was $29.9 million, compared to $37.1 million in 2019; a decrease of $7.1 million. Sales volumes, and their impact on margins and overhead absorption, were the largest contributors to the decrease in Adjusted EBITDA with other impacts being from mix, price reductions, timing of certain operational activities, changes in foreign exchange rates, and timing of pricing pass-through mechanics on material inputs.

- Operating income for the three months ended December 31, 2020 was $8.1 million, an increase of $0.9 million compared to the three months ended December 31, 2019. For the three months ended December 31, 2020, Adjusted EBITDA in the Magnequench segment was $11.4 million, compared to $9.5 million in 2019; an increase of $1.9 million.

- For the year ended December 31, 2020, volumes in the Magnequench segment were adversely affected by customer shutdowns and slowdowns, primarily as a result of the continued impact of COVID-19. The slowdown of volumes was seen across most applications that utilize Magnequench's NdFeB magnetic powders. However, Magnequench saw increases in the production and sales of NdFeB compression molded ("**CM**") magnets, particularly with respect to sales from the Anhui Asia Magnets Co., Ltd. ("**SAMAG**") business purchased in 2019. The current magnet product line, which services primarily laptop computers and consumer electronics has been on a growth trajectory gaining market share since the purchase by Magnequench. In addition, Magnequench benefited from various cost-cutting initiatives including reducing production shifts at the manufacturing locations during the year.

- Volumes, revenues and earnings are all higher in the three months ended December 31, 2020 compared to the prior year and compared to the prior sequential quarters. Certain programs and end markets, including traction motors for hybrid and electric vehicles, that utilize Magnequench NdFeB powders and CM magnets began to recover in the latter half of the third quarter and continued to recover and grow in the fourth quarter of 2020, partially due to some economic recovery and partially due to supply chains being refilled.

Chemicals & Oxides ("C&O") Segment

- For the year ended December 31, 2020, an operating loss of $26.5 million was reported, compared to an operating income of $18.4 million in 2019. The operating loss in 2020 was mainly due to the $35.1 million impairment charge recorded in the second quarter of 2020. For the year ended December 31, 2020, Adjusted EBITDA was $14.0 million, compared to $22.9 million in 2019; a decrease of $8.9 million or 39.0%.

- Operating income for the three months ended December 31, 2020 was $5.1 million, an increase of $2.2 million compared to the three months ended December 31, 2019. For the three months ended December 31, 2020, Adjusted EBITDA in the C&O segment was $7.1 million, compared to $4.4 million in 2019; an increase of $2.7 million.

- For the year ended December 31, 2020, volumes in the C&O segment were affected by the general economic slowdown, primarily as a result of COVID-19. Customers of environmental catalysts had various periods of shutdowns and slowdowns and markets for rare earth products were slowed in terms of both volume and price. Overall, for the year ended December 31, 2020, C&O auto-catalyst volumes performed slightly ahead of the prior year despite the slowdown in automotive due to market share gains and new product launches. However, C&O did not record any meaningful spot sales in the year whereas the prior year had significant spot sales in earlier quarters. Volumes and revenues in water treatment products exceeded prior years but growth was slowed during the year due to new customers trials and launches being delayed due to COVID-19. In addition, C&O implemented both cost-cutting initiatives and initiatives to reduce working capital including idling certain production facilities for a period of time. In the year ended December 31, 2020, C&O recorded an increase in its SG&A costs related to ongoing patent disputes (see "*Other Expenditures and Legal Contingencies*").

- As certain portions of the economy began to recover, in the three months ended December 31, 2020, the C&O segment saw growth in the auto-catalyst segment compared to the prior year, and particularly compared to the prior sequential quarters, supported by market share gains and new product launches. A portion of these strong volumes is related to the economic recovery and a portion is related to refilling the supply chain. In rare earth separation, C&O benefited from an increase in the market price of certain products in the latter portion of the third quarter and continuing into the fourth quarter of 2020, fueled by increased demand, primarily in magnetic applications, as the economy rebounds from the impact of COVID-19.

- On March 1, 2021, Neo announced that it entered into a non-binding agreement in principle with Energy Fuels Inc., to create an initiative to produce value-added rare earth products from natural monazite sands, a by-product of heavy mineral sands mined in the southeastern U.S. Energy Fuels will process the monazite sands into a mixed rare earth carbonate in Utah for use as feed material for rare earth separation production in Silmet.

Rare Metals Segment

- For the year ended December 31, 2020, the Rare Metals segment reported an operating loss of $30.0 million compared to $0.4 million in 2019. The operating loss in 2020 was mainly due to the $24.0 million impairment charge recorded in the second quarter of 2020. For the year ended December 31, 2020, Adjusted EBITDA in the Rare Metals segment was $(2.2) million, compared to $5.1 million in 2019; a decrease of $7.3 million.

- Operating loss for the three months ended December 31, 2020 was $4.2 million, a decrease of $4.2 million compared to the three months ended December 31, 2019. For the three months ended December 31, 2020, Adjusted EBITDA in the Rare Metals segment was $(3.3) million, compared to $1.2 million in 2019; a decrease of $4.5 million.

- Operationally, the Rare Metals segment was impacted by lower volumes and selling prices in the year ended and three months ended December 31, 2020 compared to the prior-year comparable periods. These lower volumes and selling prices were largely a result of the impact of COVID-19 impacting customer demand and the related supply chains, including receiving supply of raw materials. This decline was across most of the Rare Metals end markets; with the largest end market being aerospace applications. The end markets of Rare Metals, primarily aerospace, did not have the same pace of recovery in economic activity as other end markets like automotive or general industrial in the fourth quarter. Further, Rare Metals was impacted by a decrease in the market selling price of a number of its products late in fourth quarter of 2020 causing a $3.3 million inventory write-down in the fourth quarter related to inventory purchased in prior periods. Rare Metals has now ceased production for a small product set where COVID-19 has impacted demand and pricing.

Cash and Other Highlights for the year ended December 31, 2020

- Neo continues to have a strong financial position. As at December 31, 2020, Neo had $72.2 million in cash, $4.2 million in restricted cash and $2.4 million in short-term debt, resulting in net cash of $74.0 million.

- Neo invested $7.6 million in capital expenditures and paid $8.6 million in cash taxes in the year ended December 31, 2020.

- For the year ended December 31, 2020, Neo paid dividends to its shareholders of $11.3 million and $3.7 million to non-controlling interest partners. As part of the Normal Course Issuer Bid program, Neo purchased and canceled 396,936 shares with an aggregate disbursement of $3.1 million.

4. Impact of COVID-19 Pandemic

The outbreak of COVID-19 has spread across the globe and is impacting worldwide economic activity. Conditions surrounding COVID-19 continue to evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The COVID-19 outbreak and related public health measures have adversely affected economic activity in most industries across the globe and have increased market volatility. COVID-19 has had and continues to have a significant impact on Neo's customers, suppliers, employees, performance and operations as outlined below.

Neo operates in numerous regions of the world, each of which has been impacted by COVID-19 to differing degrees and for differing time frames. Neo's customers (the largest of which are in automotive, aerospace and general industrial) generally operate through complex global supply chains and maintain various target inventory levels with varying periods for purchase commitments. Throughout the year ended December 31, 2020, Neo’s sales were negatively impacted by customers shutting down operations, cancelling orders, delaying orders and changes to customer purchasing patterns due to customers’ managing inventory levels. The overall impact to automotive, aerospace and industrial activities varies region to region and period to period but generally reflect a significant negative trend in economic activity and sales. Although it is not practical to specifically quantify, Neo believes that the COVID-19 pandemic was the largest contributing factor to the decline in sales and financial performance for the year ended December 31, 2020.

Neo’s operating activities were also impacted by various COVID-19 shutdown requirements and the ensuing impact on raw materials and other supplies needed for production. Neo’s manufacturing operations in China were shutdown for an additional one to two weeks following the Lunar New Year shutdown in February 2020. Following the re-opening of the factories, manufacturing operations were slowed due to lack of demand, availability of raw materials and supplies and other human resource restrictions. By the end of March 2020, the operations in China were largely capable of running at normal capacity, notwithstanding the reduced demand at the time, which necessitated slowing down the rare earth separation plants in the second quarter of 2020. In Estonia, Neo slowed down or altered its operations from June 2020 through November 2020 due to a lack of primary raw materials. The reduced availability of raw materials was due to suppliers shutting down operations due to COVID-19 restrictions in their regions. In North America, Neo slowed or shut down manufacturing facilities due to government requirements through much of the second quarter of 2020. In early November 2020, four employees at the Quapaw, Oklahoma facility tested positive for COVID-19. As the Quapaw facility has a total of eight employees, the production activities at the Quapaw facility were suspended for approximately 10 days. The Quapaw facility resumed normal production on November 16, 2020. For non-manufacturing locations, Neo implemented a work-from-home policy or rotating shift policy to comply with various government regulations around the world. Despite the changes to the operating patterns noted above, Neo was able to meet shipment commitments to customers.

Each Neo facility established policies and procedures to minimize the risk that its employees become exposed to COVID-19 in the course of their employment. In addition, each Neo facility has implemented necessary protocols in order to comply with applicable legal requirements related to COVID-19. Employees have been given formal training on Neo's COVID-19 policies and procedures. Employees who can work from home are strongly encouraged to do so. Neo performs temperature screening and health checks upon entry to all facilities. Those who have recently travelled, who have COVID related symptoms, or who are known to have been exposed to the COVID-19 virus are not permitted to enter Neo facilities for an appropriate quarantine period. Employees and visitors who enter Neo facilities are required to maintain two meters of physical separation and wear masks or respirators, as appropriate. Neo also implemented enhanced protocols for plant and office hygiene including an assessment and changes to work protocols, where appropriate. Neo reduced travel for the executive, sales and technical teams. Whilst requiring significant efforts to implement, Neo does not believe that these changes had a material impact on operating performance.

Neo applied for various forms of government support in various regions of the world related to generally announced and available COVID-19 support funding. A total of $2.3 million of potential benefits have been recorded for the year ended December 31, 2020, mainly in China, Singapore and Canada. In addition, Neo engaged in numerous cost containment strategies over the period reflecting reduced customer demand including temporary shutdowns and slowdowns to manufacturing facilities, reduced discretionary expenditures such as travel and entertainment, delayed human resource recruitment, delays in certain capital expenditures, delays in certain project and development related expenditures and reductions in working capital to support lower demand.

The resulting impact to operating and financial performance from COVID-19 affected Neo’s overall liquidity position. At December 31, 2019, Neo had cash balances of $84.7 million and restricted cash of $4.2 million with nominal debt. As at December 31, 2020, Neo had cash balances of $72.2 million and restricted cash of $4.2 million with $2.4 million in short-term debt. This overall decrease in cash balances was also impacted by $11.3 million of dividends paid to Neo Shareholders and $3.1 million for common shares repurchased under Neo’s Normal Course Issuer Bid program. Neo has not experienced a significant decline in the collectability of its accounts receivable although it continues to monitor potential bad debts and maintains an expected credit loss amount, in accordance with IFRS 9. As at December 31, 2020, Neo does not have any material debt obligations or restrictive covenants that could potentially materially impact Neo's ability to continue to finance its existing operations. Neo's planned capital investment program was slowed during 2020 due to various impacts of COVID-19 during the period but Neo continues to make appropriate capital investments to support its existing business and for future growth with $7.3 million invested in capital equipment for the year ended December 31, 2020. As at December 31, 2020, Neo has continued to pay consistent dividends to its shareholders.

The impact of COVID-19 on economic activity and Neo's results were most pronounced in the second and third quarters of 2020. Starting late in the third quarter and continuing into the fourth quarter of 2020, Neo experienced a rebound in customer activity in certain end markets and segments, resulting in an increase in sales, including customers potentially refilling portions of their supply chain. It is uncertain, given the state of additional variants and the introduction of numerous vaccines, how COVID-19 will impact global economic activity and Neo's results going forward.

Neo may, in the future, seek to raise additional capital or debt and this activity may be affected by the impacts of COVID-19 but it is not possible to determine the potential impact of this at this time. It remains uncertain how long the COVID-19 virus will continue to affect Neo and economic activity in general. For more information, please see "*Business Risks and Uncertainties*".

5. Factors Affecting Neo's Performance

Revenue

Neo produces advanced industrial materials that are essential inputs to high-technology, high-growth, and future-facing industries. Our products are indispensable inputs for many applications because of their unique physical and chemical properties. These include magnetic, catalytic, luminescent, electrochemical, thermal stability and superconductive properties. Revenue is related to the demand of these end markets as well as the suitability and competitiveness of Neo's products.

Among the input materials utilized by Neo in our advanced industrial materials are rare earths. Greater than 80% of the world's rare earth sources are processed in China. Neo's Chinese manufacturing facilities in the C&O segment are subject to rare earth separation quotas in China and the source rare earths used in the Magnequench business largely come from China. Restrictions in supply of these source rare earths may impact revenues from magnetic powders. Neo's customers are global and a substantial amount of sales are generated in the same regions as Neo's manufacturing facilities, including China. Neo also sources rare earths from outside China including from Australia and Russia. Neo's rare earth sourcing strategy forms one of the most globally diversified supply chains in the rare earth industry.

Input material prices are affected by supply and demand, and policies and circumstances affecting supply from China, including the continued existence of unlicensed mining operations in China. Neo only purchases rare earth products from government licensed operations that must comply with all environmental regulations. Most of Neo's custom and standardized element sales are subject to current market pricing. Most of Neo's magnetic powder sales and auto catalyst functional material sales have various forms of raw material pass-through agreements. These agreements generally have mechanisms tied to the pricing of the various input materials but are implemented over established time frames (monthly, quarterly, semi-annually and annually). Accordingly, changes in input material pricing may have an impact on total revenue.

Costs of sales

Neo's costs of sales is comprised of raw materials, labour, processing costs, production overheads and depreciation and amortization of productive assets.

The largest element of Neo's costs of sales is related to the input materials used in production that it purchases from outside vendors. Changes in input material costs are either translated into selling prices of spot sales or incorporated into future selling prices via pass-through mechanisms. There are timing delays between the incorporation of changing material costs and selling prices.

Outside of input material cost, Neo's largest costs include labour and benefits, chemical reagents, natural gas, electricity, maintenance, operating supplies, other plant overheads and depreciation and amortization. Some of these costs are fixed and some are variable. For a portion of variable costs, adjustments to production levels are made over periods of time. Accordingly, as production volume increases or decreases, average cost per volume produced decreases or increases, respectively. Some of these costs are subject to volume fluctuations and are influenced by general economic conditions beyond Neo's control.

Selling, general and administrative ("SG&A") expense

SG&A expense consists primarily of personnel and related costs, including freight, legal, accounting and other professional service fees and information technology costs.

Neo has a global sales force that is highly technically trained and fluent in the major languages of its customers. Neo has made significant investments in creating and maintaining this global sales force in geographic proximity to its major customers, which positions Neo to better leverage global demand, work closely with customers in product development efforts, and maximize pricing.

Share-based compensation

Neo Cayman Holdings Ltd.'s ("**Neo Cayman**") management incentive plan was assigned to Neo upon the completion of the Arrangement. See *"Basis of Presentation"*. This plan, **(**the "**Legacy Plan**"), was comprised of Share Options ("**Options**"), Restricted Share Units ("**RSU**s"), Performance Stock Units ("**PSU**s") 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 common shares of Neo or, in the case of the options, to purchase common shares of Neo. 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 Capital Management L.P. ("**Oaktree**"), and its affiliates, ceasing to own at least 51% of the common 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 common shares of Neo underlying the Stock Units, applying the exchange ratio applied in connection with the Arrangement. See *"Basis of Presentation"*. 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 Deferred Share Units ("**DSUs**") under the Directors Share Unit Plan, and Restricted Share Units ("**RSUs**"), Performance Stock Units ("**PSUs**") and Additional PSUs, under the LTIP. As at December 31, 2018, the liquidity event condition was not met; therefore, the Special PSUs under the Legacy Plan and Additional PSUs under the LTIP were cancelled in 2018.

On December 22, 2020, Neo completed a bought deal secondary offering of common shares of Neo. On February 17, 2021, Neo completed another bought deal secondary offering of common shares of Neo. The completion of these two bought deal secondary offerings, see *"Basis of Presentation"*, constituted a liquidity event under the Legacy Plan. As a result, 423,875 equity-settled PSUs, 1,445 equity-settled RSUs, 13,335 cash-settled PSUs and 3,516 cash-settled RSUs will vest, while 211,941 equity-settled PSUs and 6,667 cash-settled PSUs will be cancelled in the first quarter of 2021.

R&D

A critical success factor for Neo is to continually develop and evolve new products that meet customer's exacting specifications. This includes maintaining close relationships with key customers, understanding changing market factors and responding with innovative products both as improvements to existing applications and developing new applications and solutions.

Neo invests in R&D activities in response to customer needs as well as perceived market development. These expenses consist primarily of salaries, outside labour, materials and equipment. R&D activities occur in both plant manufacturing locations and in dedicated R&D centres and are coordinated through global efforts within each business segment. Neo continues to dedicate resources to research and develop new applications for its products, provide technical solutions to its customers and drive new process development. These factors allow for a more efficient and profitable use of Neo's products.

Finance income (costs), net

From time to time, Neo may draw upon the various revolving lines of credit available to each subsidiary as part of the cash management strategy for that subsidiary. Finance costs may be incurred as a result of these cash management strategies. In addition, finance costs may be incurred as a result of the re-measurement in each period of Neo's derivative liability, which is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary, Buss & Buss.

Income tax expense

Neo's income tax expense is based on the income earned or loss incurred in each tax jurisdiction at the enacted or substantively enacted tax rate applicable to that income or loss.

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.

Neo recognizes deferred tax assets to the extent management believes it is probable that the related tax benefit amount will be realized. Management considers factors such as the reversal of taxable temporary differences, projected future taxable income, the character of the income tax asset, tax planning strategies, changes in tax laws and other factors. A change to these factors could impact the amount of deferred tax assets Neo recognizes.

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

6. Basis of Presentation

On September 12, 2017 OCM Neo Holdings (Cayman), L.P. ("**OCM**") formed Neo, a company incorporated in the province of Ontario, for the purpose of completing a Cayman Islands scheme of arrangement (the "**Arrangement**") with Neo Cayman and a subsequent public offering of common shares of Neo.

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 of Neo.

On November 30, 2017, Neo completed an IPO by way of a secondary offering on the Toronto Stock Exchange ("**TSX**") that began trading on December 8, 2017. 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 of Neo for additional gross proceeds of Cdn $19,800,000. All proceeds, net of underwriter commissions, were paid to the selling shareholder, Oaktree and its affiliates.

On July 15, 2019, Neo, through a newly formed wholly owned subsidiary, Magnequench Magnetics (Chu Zhou) Co., Ltd. ("**MQCZ**") entered into a definitive agreement to purchase the net assets of SAMAG, a privately-owned manufacturer in Chuzhou, China of NdFeB CM bonded magnets, for a purchase price of $9.2 million (RMB 64.8 million), plus working capital of $0.3 million (RMB 2.3 million). Neo has applied IFRS 3 Business Combinations to account for the purchase of SAMAG.

On November 12, 2019, Neo entered into an equity interest transfer agreement to purchase the entire 59.6% equity interest of Zibo Shijia Trading Co., Ltd. ("**ZSTC**") from Mr. Sun Dekuan for a purchase price of $1.1 million (RMB 7.9 million). ZSTC is a privately-owned holding company in Shandong, China which holds a 5% equity interest in Zibo Jiahua Advanced Material Resources Co., Ltd. ("**ZAMR**") one of Neo's subsidiaries in Shandong, China. The acquisition of the 59.6% equity interest in ZSTC increases Neo's equity interest in ZAMR from 95% to 98%. The transaction closed on December 29, 2019. Neo has accounted for the purchase as an equity transaction resulting in a reduction of non-controlling interest.

On December 22, 2020, Neo completed a bought deal secondary offering of common shares of Neo. OPPS NPM S.a.r.l. and OPPS NPM II S.a.r.l. (collectively the "**Selling Shareholders**") sold an aggregate of 3,932,500 common shares of Neo at Cdn $12.10 per share for total gross proceeds to the Selling Shareholders of approximately Cdn $47.6 million.

On February 17, 2021, Neo completed another bought deal secondary offering of common shares of Neo. The Selling Shareholders, funds managed by Oaktree, sold an aggregate of 5,175,000 common shares of Neo at Cdn $15.75 per share for total gross proceeds to the Seller Shareholders of approximately Cdn $81.5 million. Following the completion of this bought deal secondary offering, Oaktree holds an aggregate of 17,109,155 common shares of Neo, representing approximately 45.7% of the issued and outstanding common shares of Neo. This constituted a liquidity event under the Legacy Plan.

All intercompany transactions have been eliminated.

7. Consolidated Results of Operations

Comparison of the year ended and three months ended December 31, 2020 to the year ended and three months ended December 31, 2019

($000s)	**Year Ended December 31,**		**Three Months Ended December 31,**	
	2020	**2019**	**2020**	**2019**
Revenue	346,692	407,464	110,397	94,553
Costs of sales				
Costs excluding depreciation and amortization	256,928	293,912	82,104	66,072
Depreciation and amortization	9,430	9,965	1,999	2,656
Gross profit	**80,334**	**103,587**	**26,294**	**25,825**
Expenses				
Selling, general and administrative	53,702	41,935	16,113	12,007
Share-based compensation	1,733	778	817	401
Depreciation and amortization	7,750	8,032	1,899	2,062
Research and development	13,724	14,326	4,275	4,341
Impairment of assets	59,084	1,014	—	—
	135,993	66,085	23,104	18,811
Operating (loss) income	**(55,659)**	**37,502**	**3,190**	**7,014**
Other expense	(2,318)	(1,492)	(2,253)	(1,027)
Finance (cost) income, net	(878)	(2,310)	2,484	(266)
Foreign exchange (loss) gain	(651)	(920)	(211)	50
(Loss) Income from operations before income taxes and equity income of associates	**(59,506)**	**32,780**	**3,210**	**5,771**
Income tax expense	(1,643)	(10,085)	(832)	(1,278)
(Loss) Income from operations before equity income of associates	**(61,149)**	**22,695**	**2,378**	**4,493**
Equity income (loss) of associates (net of income tax)	1,060	380	(22)	(10)
Net (loss) income	**$ (60,089)**	**$ 23,075**	**$ 2,356**	**$ 4,483**
Attributable to:				
Equity holders of Neo	(57,931)	$ 22,920	2,219	$ 4,639
Non-controlling interest	(2,158)	155	137	(156)
	$ (60,089)	**$ 23,075**	**$ 2,356**	**$ 4,483**
(Loss) Earnings per share data attributable to equity holders of Neo:				
Basic	$ (1.54)	$ 0.59	$ 0.06	$ 0.12
Diluted	$ (1.54)	$ 0.59	$ 0.06	$ 0.12

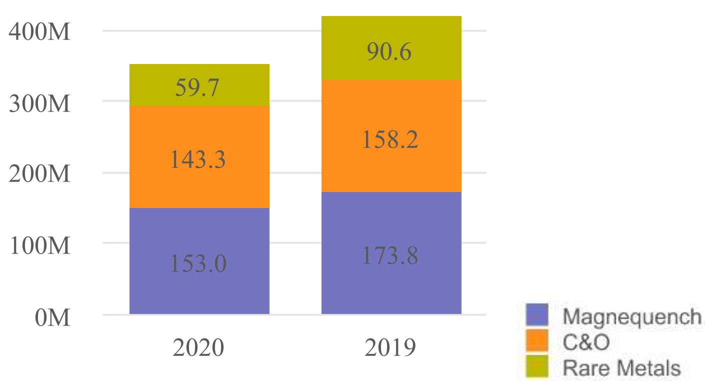
Revenue

Neo's consolidated revenue for the year ended December 31, 2020 was \$346.7 million compared to \$407.5 million for the year ended December 31, 2019; a decrease of \$60.8 million or 14.9%. For the three months ended December 31, 2020, consolidated revenue was \$110.4 million compared to \$94.6 million in the prior year, an increase of \$15.8 million or 16.8%.

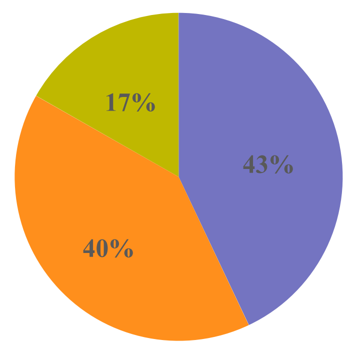
(\$000s)	**Year Ended December 31,**				**Three Months Ended December 31,**			
	2020	**2019**	**Change**	**%**	**2020**	**2019**	**Change**	**%**
Magnequench	\$ 152,966	\$ 173,800	\$ (20,834)	(12.0%)	\$ 52,553	\$ 42,748	\$ 9,805	22.9%
C&O	143,322	158,226	(14,904)	(9.4%)	48,433	33,650	14,783	43.9%
Rare Metals	59,688	90,622	(30,934)	(34.1%)	12,096	21,564	(9,468)	(43.9%)
Eliminations	(9,284)	(15,184)	5,900	(38.9%)	(2,685)	(3,409)	724	(21.2%)
Consolidated Revenue	**\$ 346,692**	**\$ 407,464**	**\$ (60,772)**	(14.9%)	**\$ 110,397**	**\$ 94,553**	**\$ 15,844**	16.8%

Revenue by segment before inter-segment eliminations [(1)]

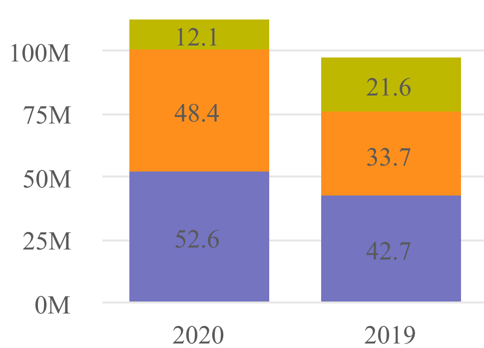
For the Years Ended December 31, 2020 and 2019



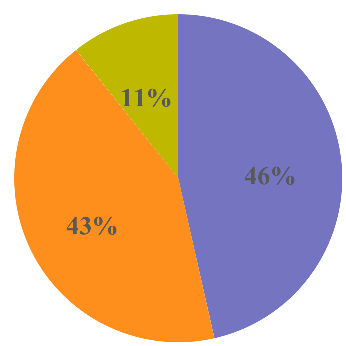
For the Year Ended December 31, 2020



For the Three Months Ended December 31, 2020 and 2019



For the Three Months Ended December 31, 2020



Notes:

(1) The revenue by segment before inter-segment eliminations charts excluded inter-segment revenue eliminations.

Inter-segment revenue for the year ended December 31, 2020 was $9.3 million compared to $15.2 million in the prior year. For the three months ended December 31, 2020, inter-segment revenue was $2.7 million compared to $3.4 million in the same period of the prior year. These have been eliminated on consolidation from C&O segment revenue as C&O sold product to Magnequench in the respective periods. The products sold to Magnequench are potential marketable third-party sales and are generally sold at fair market value.

Further commentary on the revenue changes in each segment are included in the discussion under the heading "*Discussion and Analysis of Reportable Segments*" below.

Costs of sales

Consolidated costs of sales, excluding depreciation and amortization, for the year ended December 31, 2020 was $256.9 million or 74.1% of revenue, compared to $293.9 million or 72.1% of revenue in the prior year. Costs of sales, excluding depreciation and amortization, as a percentage of revenue increased due to the impact of overhead absorption (from lower revenue), the impact of rare earth price inputs (which are largely passed on to the customers) and product mix within the business segments. For the year ended December 31, 2020, a portion of the government assistance related to COVID-19 relief programs in the amount of $1.4 million was netted to cost of sales, excluding depreciation and amortization.

For the three months ended December 31, 2020, costs of sales, excluding depreciation and amortization, was $82.1 million compared to $66.1 million in the same period of the prior year; an increase of $16.0 million or 24.3% quarter-over-quarter.

Consolidated depreciation and amortization in costs of sales were $9.4 million for the year ended December 31, 2020 compared to $10.0 million in the prior year. For the three months ended December 31, 2020, consolidated depreciation and amortization in costs of sales were $2.0 million compared to $2.7 million in the same period of the prior year. Consolidated depreciation and amortization in costs of sales in both the year and three months ended December 31, 2020 decreased due to the lower carrying value of property, plant and equipment and finite-lived intangible assets as a result of impairments recorded in the second quarter of 2020.

Further commentary on the costs of sales changes in each segment are included in the discussion under the heading "*Discussion and Analysis of Reportable Segments*" below.

Selling, general and administrative ("SG&A") expense

Neo's SG&A expense consists primarily of personnel and related costs, including freight, legal, accounting and other professional fees, and information technology costs. For the year ended December 31, 2020, SG&A expense was $53.7 million compared to $41.9 million last year. SG&A expense for the three months ended December 31, 2020 was $16.1 million compared to $12.0 million in the same period in the prior year.

Neo's SG&A expense increased in 2020 due to the costs associated with the departure of a former member of Neo's executive management team, transaction costs related to the secondary offering, and an increase in expenses related to legal contingencies (see "*Other Expenditures and Legal Contingencies*") offset by $0.7 million government assistance related to COVID-19 relief programs .

For the year ended and three months ended December 31, 2020, SG&A expense also included value bonus expense of $2.5 million and $2.8 million, respectively. For the year ended and three months ended December 31, 2019, value bonus (recovery)/expense were $(1.6) million and nominal, respectively. The completion of the February 2021 bought deal secondary offering of common shares of Neo constituted a liquidity event under the Legacy Plan. As a result, in December 2020, Neo accrued and will pay a total value bonus expense of $3.2 million by the second quarter of 2021 (see "*Subsequent Events*").

In December 2018, Neo entered into an arrangement agreement with Luxfer Holdings plc ("**Luxfer**") and 2671219 Ontario Inc. (the "**Purchaser**"), a wholly-owned subsidiary of Luxfer, pursuant to which, the Purchaser would acquire the issued and outstanding common shares for a combination of cash and stock (the "**Luxfer Transaction**"). On March 10, 2019, Luxfer and Neo mutually agreed to terminate the Luxfer Transaction. The lower SG&A costs in 2019 relate primarily to a recovery of $1.9 million for expenses Neo incurred related to the termination of the Luxfer Transaction ($3.5 million receivable from Luxfer less costs incurred in the first quarter of 2019), and a recovery of value bonus expenses (cumulative expense adjustment based on the impact of the termination of the arrangement agreement).

Share-based compensation

For the year ended and three months ended December 31, 2020, share-based compensation expense was $1.7 million and $0.8 million, respectively, compared to $0.8 million and $0.4 million for the year ended and three months ended December 31, 2019. During the first quarter of 2019, there was a revision of the vesting period from the previous estimate for Share Options and RSUs pursuant to the termination of the Luxfer Transaction. Neo subsequently revised and adjusted the recognized share-based compensation expense cost on a cumulative basis. This resulted in a share-based compensation recovery in the first quarter of 2019. The higher share-based compensation expense in 2020 was mainly due to more Stock Units granted during the year as well as higher share price for Neo's common shares.

Neo granted a total of 54,194 DSUs, 61,165 Options, 145,325 RSUs and 150,325 PSUs during the year ended December 31, 2020. Only the Options are equity settled. Neo granted 32,783 DSUs and 60,177 RSUs in 2019. As a result of the liquidity event occurring after year end, 423,875 equity-settled PSUs, 1,445 equity-settled RSUs, 13,335 cash-settled PSUs and 3,516 cash-settled RSUs will vest, while 211,941 equity-settled PSUs and 6,667 cash-settled PSUs will be cancelled in the first quarter of 2021. These have no impact on share-based compensation expense for the year ended December 31, 2020.

Depreciation and amortization

Depreciation and amortization unrelated to production for the year ended and three months ended December 31, 2020 was $7.8 million and $1.9 million, respectively, which are comparable to the amounts in the corresponding prior periods of $8.0 million and $2.1 million, respectively.

R&D

For the year ended and three months ended December 31, 2020, R&D expense was $13.7 million and $4.3 million, respectively, compared to $14.3 million and $4.3 million in the corresponding periods in 2019. Neo continues to prioritize making strategic and appropriate investments in R&D to develop new applications for its products and to strategically position itself to meet customers' needs for technical solutions. Certain R&D costs are project-based and may be higher or lower in any given period.

Impairment of assets

The negative economic impacts of COVID-19 were determined to be an impairment indicator during the second quarter of 2020 for all Neo's Cash Generating Units ("**CGUs**"). In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's groups of CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of $59.1 million for the year ended December 31, 2020, with $35.1 million attributable to the C&O segment and $24.0 million attributable to the Rare Metals segment. No impairment was recorded against the Magnequench segment. The impairment charge against the C&O and Rare Metals segments was allocated as follows:

($000s)	Chemicals & Oxides	Rare Metals	Total
Goodwill	$ 16,668	$ 16,283	$ 32,951
Intangible assets	6,339	3,121	9,460
Property, plant and equipment	12,057	4,616	16,673
Total	**$ 35,064**	**$ 24,020**	**$ 59,084**

At December 31, 2020, Neo performed the annual goodwill and indefinite life intangible asset impairment testing for the Magnequench CGU, and determined that no impairment existed for the CGU. Neo used a consistent approach to that used at June 30, 2020, including updating key assumptions, as necessary, to calculate the recoverable amount for the Magnequench segment.

For the year ended December 31, 2019, Neo reported impairment charges of $1.0 million in the Rare Metals segment related to the closure of NRM Utah, which consists of impairment of property, plant and equipment of $1.0 million and a nominal amount of write-off of prepaid expenses that will not be utilized as a result of the closure.

Other income (expense)

Neo reported consolidated other expense of $2.3 million for both the year ended and three months ended December 31, 2020, compared to other expense of $1.5 million and $1.0 million for the year ended and three months ended December 31, 2019. In the year ended December 31, 2020, Neo recorded an additional $2.1 million in costs relating to naturally occurring radioactive materials ("**NORM**"), reflecting management's updated estimates for costs related to disposing the historically accumulated NORM. For the year ended December 31, 2019, Neo recorded $1.0 million for NORM. In 2019, Neo also recorded $0.8 million of restructuring costs related the closure of NRM Utah.

Finance income (cost), net

Finance cost, net, for the year ended December 31, 2020 was $0.9 million compared to $2.3 million in 2019. For the three months ended December 31, 2020, Neo recorded finance income of $2.5 million compared to finance cost of $0.3 million in the same period of the prior year. Neo's finance income (cost), net in both years were primarily related to the derivative liability, which is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss. This liability is re-measured at each reporting period with the change in fair value recorded to finance income (cost), net. For the year ended December 31, 2020, Neo also recorded a dividend of $3.3 million, paid to the non-controlling interest subject to the put option as a finance cost in accordance with IAS 32. As at December 31, 2020, Neo had no outstanding bank loans and $2.4 million was drawn from the line of credit. Nominal amounts were drawn in 2019.

Income tax expense

For the year ended and three months ended December 31, 2020, Neo recorded income tax expense of $1.6 million and $0.8 million, respectively, on loss from operations before taxes of $59.5 million for the year ended December 31, 2020 and income from operations before taxes of $3.2 million for the three months ended December 31, 2020. For the year ended and three months ended December 31, 2019, Neo had income tax expense of $10.1 million and $1.3 million, respectively, on income from operations before taxes of $32.8 million and $5.8 million.

Neo's effective tax rate was (2.8)% and 25.9% for the year ended and three months ended December 31, 2020, respectively, and 30.8% and 22.1% for the year ended and three months ended December 31, 2019.

The decrease in effective tax rate for the year ended December 31, 2020 relates to the impairment in the second quarter of goodwill of $33.0 million which is not deductible for tax purposes and the $8.5 million impairment of intangible assets and property, plant and equipment in a jurisdiction for which there was no tax benefit. The impairments increased the loss from operations without any corresponding tax benefit, resulting in a reduction to the effective tax rate.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of $7.6 million and $1.2 million for the year ended and three months ended December 31, 2020, respectively, compared to $21.0 million and $3.7 million for the year ended and three months ended December 31, 2019. These capital projects included a combination of maintenance capital to assist with the continuing development and operations of Neo, growth capital to assist in adding new capacity or new products and strategic capital tied to longer-term strategic planning initiatives. Of the $21.0 million of capital expenditures in the prior-year period, $9.3 million was related to the acquisition of the SAMAG business for Magnequench.

Environmental Expenditures

Neo's operations are subject to numerous and detailed environmental laws, regulations and permits, including those pertaining to employee health and safety, environmental permitting and licensing, air quality standards, wastewater treatment and pollution control, and handling and disposal of hazardous and radioactive materials and wastes.

Neo's Zibo facility was designed to make use of wastewater treatment and discharge facilities of an adjacent petrochemical complex. There is a variable monthly charge based on the Zibo facility's usage. The facility is also obliged to pay a monthly environmental administration fee to the municipal government of Linzi, China. For both the years ended December 31, 2020 and 2019, Neo paid annual administration fees of $0.1 million.

As part of the recycling of gallium and indium scrap into saleable metal, waste material is generated during the leaching process. Neo has adequate procedures in place to ensure that these wastes are appropriately contained and disposed of.

Neo's Canadian operations in Ontario are subject to federal, provincial and local regulation and must periodically submit documentation to validate the waste disposal process throughout the year. For the year ended December 31, 2020, waste disposal costs related to the Rare Metals production facilities totaled $0.4 million, compared to $0.5 million in costs in the year ended December 31, 2019.

Neo's NPM Silmet OÜ facility in Estonia and JAMR facility in China, in their normal operation, generates hazardous waste and NORM. These materials are stored at the site in accordance with local laws and regulations. As at December 31, 2020, Neo recorded a provision of $4.6 million for the offsite disposal of the NORM and other related costs in China, and $2.2 million for the disposal and other related costs in Estonia. The total provision for NORM increased by $1.2 million in comparison to 2019. The increase was due to updated estimates to remove the existing NORM for $2.1 million, and foreign exchange impact of $0.2 million, net of $1.1 million in cash paid to prepare the NORM for disposal.

With respect to the NORM in Estonia, Neo, in agreement with the government in Estonia, has set aside $2.8 million (€2.3 million) in a restricted cash account. These amounts represent management's best estimate of the costs to be incurred by Neo to transport the NORM residue to a third party for processing. Neo expects the provision for transportation of the NORM to be settled by the end of 2021.

Legal contingencies

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

There are many factors that make it difficult to estimate the impact of a particular lawsuit on Neo, including, 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, the German Courts have ruled that certain of Neo Chemicals & Oxides (Europe) Ltd.'s ("**Neo C&O (Europe)**") products infringed four expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1("**846**"), European patent #0605274 ("**274**"), and European patent #0955267 B1 ("**267**"). Neo C&O (Europe) filed an appeal in each of the four infringement actions. The appeal with respect to 846 is still pending. Neo C&O (Europe) has either lost or withdrawn its appeals with respect to 984, 274 and 267, and consequently the judgements in these cases are final. Neo C&O (Europe) was ordered to provide information related to the calculation of damages, but as yet there has been no determination of damages in any of the German infringement lawsuits.

Neo C&O (Europe) challenged the validity of patents 984, 846, 274 and 267 before the German Federal Patent Court, which upheld patents 984, 846 and 267, but invalidated patent 274. Both Neo C&O (Europe) and Rhodia appealed the rulings with respect to 984, 846 and 274 to the German Supreme Court. The German Supreme Court has upheld the validity of patents 984, 846 and 274 but narrowed the scope of all three patents. The German Federal Patent Court's ruling upholding 267 was not appealed. Neo C&O (Europe) also filed actions in the German Federal Patent Court challenging the validity of European patent #1527018 ("**018**") and European patent #2007682 ("**682**"). Neo's lawsuits to invalidate 018 and 682 are still pending.

Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed four unexpired patents: 018, 682, European Patent #1435338 B1 ("**338**") and European patent #2523907 ("**907**"). In September 2020, Neo C&O (Europe) was found to infringe 018 in Germany by the Düsseldorf Regional Court. Neo and Rhodia have both appealed this ruling, and the appeals are still pending. The Düsseldorf Regional Court has stayed Rhodia's case alleging infringement of 682, pending the outcome of Neo's action before the German Federal Patent Court to invalidate 682. The 907 action was initiated at the beginning of July 2020, and is scheduled to go to trial in September 2021.

In December 2017, the Regional Court of Mannheim (Germany) determined that certain of Neo C&O (Europe)'s products infringed patent 338, and an injunction prohibiting the sale of affected products into Germany was granted. Neo C&O (Europe) has appealed the decision. In January 2019, the Federal Patent Court in Munich revoked the German designation of patent 338. The Higher Regional Court of Karlsruhe granted Neo C&O (Europe)'s request for a stay of the injunction, subject to the requirement that Neo provide financial security. Rhodia has appealed the invalidation of patent 338 by the German Federal Patent Court and the appeal is scheduled for a hearing in April 2021.

In April 2018, the UK Court determined that certain of Neo C&O (Europe)'s products infringed the equivalent UK patent 338. Neo C&O (Europe) appealed the trial court judgment of infringement but in October of 2019 the judgment of infringement was affirmed. A trial on Rhodia's claim for damages in the UK is scheduled for January 2022.

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

On September 26, 2018, the PRB again ruled in favor of ZAMR by invalidating all product claims associated with patent ZL 200710146613.6, held by Daiichi Kigenso Kagaku Kogyo Co. ("**DKKK**"). The PRB upheld the validity of Claim 4, which is a method claim. On October 24, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by DKKK and Rhodia Operations alleging infringement of patent ZL 200710146613.6. On November 22, 2019, the Shandong Higher Court reversed the ruling of the Zibo Intermediate Court and ordered that the case be transferred to the Ji'nan Intermediate Court for a trial on alleged infringement of Claim 4; this case has not yet gone to trial. In December 2020, the Beijing IP Court upheld the ruling of the PRB invalidating claims 1 through 3 of patent ZL 200710146613.6. DKKK's appeal of this judgment to the Supreme People's Court is pending.

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

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

In October 2020, Rhodia Operations refiled a lawsuit, in the Ji'nan Intermediate Court, alleging ZAMR had infringed Chinese patent ZL 96196505.3. In 2015 Rhodia Operations had filed a similar lawsuit against ZAMR alleging infringement of the same patent before the Zibo Intermediate People's Court, but in December 2019 Rhodia Operations withdrew that lawsuit during the middle of trial. The case before the Ji'nan Intermediate Court is still pending.

In November of 2020 Rhodia Operations filed a lawsuit in Estonia against NPM Silmet OÜ alleging infringement of European Patent EP 3009403. This case has not yet been set for trial.

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	$3.1 million
Chinese patent ZL 200710146613.6	China	$2.3 million
European patent 0863846 B1	Germany	$8.7 million
European patent 0735984 B1	Germany	
European patent 0605274 B1	Germany	
Chinese patent ZL 96196505.3	China	$6.9 million
European Patent EP 3009403	Estonia	$0.1 million
European & UK patents 1435338 B1	UK	Not specified
European & UK patents 1435338 B1	Germany	Not specified
European patent 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified
European patent 2523907	Germany	Not specified

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

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

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

5. Non-IFRS Financial Measures

This MD&A makes reference to certain non-IFRS financial measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS, and may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS financial measures by providing further understanding of Neo's results of operations from management's perspective. Neo's definitions of non-IFRS measures used in this MD&A may not be the same as the definitions for such measures used by other companies in their reporting. Non-IFRS measures have limitations as analytical tools and should not be considered in isolation nor as a substitute for analysis of Neo's financial information reported under IFRS. Neo uses non-IFRS financial measures, including "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Net Income or Loss", "EBITDA", "Adjusted Earnings per Share", "Free Cash Flow", and "Free Cash Flow Conversion" to provide investors with supplemental measures of its base-line operating performance and to eliminate items that have less bearing on operating performance or operating conditions, thus highlighting trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. Neo believes that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of issuers. Neo's management also uses non-IFRS financial measures in order to facilitate operating performance comparisons from period to period. Neo defines such financial measures as follows:

"**Adjusted EBITDA**" is defined as EBITDA before equity income (loss) in associates, other income (expense), foreign exchange (gain) loss, share and value-based compensation, impairment of long-lived assets, and other costs (recoveries);

"**Adjusted EBITDA Margin**" is defined as Adjusted EBITDA divided by revenue;

"**Adjusted Net Income or Loss**" is defined as net income or loss before foreign exchange (gain) loss, share and value-based compensation, impairment of assets, other costs (recoveries), and other items included in other expense (income), net of the related tax effects;

"**EBITDA**" is defined as net income (loss) before finance costs (income), net, income tax expense, depreciation and amortization included in cost of sales, and depreciation and amortization included in operating expenses;

"**Adjusted Earnings or Loss per Share**" is defined as Adjusted Net Income or Loss attributable to equity holders of Neo divided by the weighted average number of common shares outstanding;

"**Free Cash Flow**" is defined as Adjusted EBITDA less capital expenditures;

"**Free Cash Flow Conversion**" is defined as Free Cash Flow divided by Adjusted EBITDA; and

Management believes that the use of these non-IFRS financial measures provides a more consistent measure of underlying operating performance, with comparability among periods that investors may find useful. The exclusion of certain adjustments does not imply that they are non-recurring.

In the past, Neo used references to Adjusted EBITDA and Adjusted OIBDA, defined as operating income before depreciation and amortization, share and value-based compensation, impairment of assets, and other costs (recoveries), interchangeably as the adjustments in each measure provides the same calculated outcome of operating performance. In 2020, management has only presented Adjusted EBITDA to simplify the disclosure.

Reconciliation of Net Income (Loss) to EBITDA, Adjusted EBITDA and Free Cash Flow:

($000s, except volume)	Year Ended December 31,				Three Months Ended December 31,			
	2020	**2019**	**Change**	**%**	**2020**	**2019**	**Change**	**%**
Net (loss) income	**$ (60,089)**	**$ 23,075**	**$ (83,164)**	(360%)	**$ 2,356**	**$ 4,483**	**$ (2,127)**	(47.0%)
Add back (deduct):								
Finance cost (income), net	878	2,310	(1,432)		(2,484)	266	(2,750)	
Income tax expense	1,643	10,085	(8,442)		832	1,278	(446)	
Depreciation and amortization included in costs of sales	9,430	9,965	(535)		1,999	2,656	(657)	
Depreciation and amortization included in operating expenses	7,750	8,032	(282)		1,899	2,062	(163)	
EBITDA	**(40,388)**	**53,467**	**(93,855)**	(176%)	**4,602**	**10,745**	**(6,143)**	(57.0%)
Adjustments to EBITDA:								
Other expense (1)	2,318	1,492	826		2,253	1,027	1,226	
Foreign exchange loss (gain) (2)	651	920	(269)		211	(50)	261	
Equity (income) loss of associates	(1,060)	(380)	(680)		22	10	12	
Share and value-based compensation (3)	4,244	(830)	5,074		3,584	443	3,141	
Impairment of assets (4)	59,084	1,014	58,070		—	—	—	
Other costs (recoveries) (5)	4,025	(1,927)	5,952		1,636	305	1,331	
Adjusted EBITDA	**$ 28,874**	**$ 53,756**	**$ (24,882)**	(46.3%)	**$ 12,308**	**$ 12,480**	**$ (172)**	(1.0%)
Adjusted EBITDA Margins	*8.3%*	*13.2%*			*11.1%*	*13.2%*		
Less:								
Capital expenditures (6)	7,614	20,983	(13,369)	(63.7%)	$ 1,178	$ 3,742	$ (2,564)	(69.0%)
Free Cash Flow	**$ 21,260**	**$ 32,773**	**$ (11,513)**	(35.1%)	**$ 11,130**	**$ 8,738**	**$ 2,392**	27.0%
Free Cash Flow Conversion (7)	73.6%	61.0%			90.4%	70.0%		
Revenue	346,692	407,464	(60,772)	(14.9%)	110,397	94,553	15,844	17.0%
Sales volume (tonnes)	12,566	13,599	(1,033)	(7.6%)	3,683	3,371	312	9.0%

Notes:

(1) Represents other expenses resulting from non-operational related activities. These costs and recoveries are not indicative of Neo's ongoing activities.

(2) Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.

(3) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for 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 is included in selling, general, and administration expenses. For the year ended and three months ended December 31, 2020, value-based compensation expense was $2,511 and $2,767, respectively. For the year ended and three months ended December 31, 2019, value-based compensation (recovery)/expense was $(1,606) and $43, respectively. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(4) The negative economic impacts of COVID-19 were determined to be an impairment indicator during the second quarter of 2020 for all of Neo's groups of CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's groups of CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of $59.1 million for the year ended December 31, 2020, with $35.1 million attributable to the C&O segment and $24.0 million attributable to the Rare Metals segment. No impairment was recorded against the

Magnequench segment. In 2019, the $1.0 million impairment in the Rare Metals segment represents impairment of property, plant and equipment and other assets related to the closure of NRM Utah that will not be utilized as a result of the closure.

(5) These represent primarily legal, professional advisory fees and other transaction costs incurred/(recovered) with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.

(6) Capital expenditures in 2019 include $9.3 million related to the assets acquired through a business combination.

(7) Calculated as Free Cash Flow divided by Adjusted EBITDA.

Reconciliation of Net Income (Loss) to Adjusted Net Income or Loss:

($000s)	**Year Ended December 31,**		**Three Months Ended December 31,**	
	2020	**2019**	**2020**	**2019**
Net (loss) income	**$ (60,089)**	**$ 23,075**	**$ 2,356**	**$ 4,483**
Adjustments to net (loss) income:				
Foreign exchange loss (gain) (1)	651	920	211	(50)
Impairment of assets (2)	59,084	1,014	—	—
Share and value-based compensation (3)	4,244	(830)	3,584	443
Other costs (recoveries) (4)	4,025	(1,927)	1,636	305
Other items included in other expense (5)	2,136	1,661	2,136	905
Tax impact of the above items	(3,886)	186	(340)	31
Adjusted net income	**$ 6,165**	**$ 24,099**	**$ 9,583**	**$ 6,117**
Attributable to:				
Equity holders of Neo	$ 6,056	$ 23,944	$ 9,446	$ 6,273
Non-controlling interest	$ 109	$ 155	$ 137	$ (156)
Weighted average number of common shares outstanding:				
Basic	37,629,963	38,821,647	37,505,596	37,943,542
Diluted	38,395,976	38,963,015	38,211,305	38,021,176
Adjusted earnings per share attributable to equity holders of Neo:				
Basic	$ 0.16	$ 0.62	$ 0.25	$ 0.17
Diluted	$ 0.16	$ 0.61	$ 0.25	$ 0.16

Notes:

(1) Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.

(2) The negative economic impacts of COVID-19 were determined to be an impairment indicator during the second quarter of 2020 for all of Neo's groups of CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's groups of CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of $59.1 million for the year ended December 31, 2020, with $35.1 million attributable to the C&O segment and $24.0 million attributable to the Rare Metals segment. No impairment was recorded against the Magnequench segment. In 2019, the $1.0 million impairment in the Rare Metals segment represents impairment of property, plant and equipment and other assets related to the closure of NRM Utah that will not be utilized as a result of the closure.

(3) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for 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 is included in selling, general, and administration expenses. For the year ended and three months ended December 31, 2020, value-based compensation expense was $2,511 and $2,767, respectively. For the year ended and three months ended December 31, 2019, value-based compensation (recovery)/expense was $(1,606) and $43, respectively. Neo has removed both the share and value-based compensation

expense from net income to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(4) These represent primarily legal, professional advisory fees and other transaction costs incurred/(recovered) with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.

(5) Represents certain other transactions that Neo has removed from net income to provide comparability with historic periods.

9. Discussion and Analysis of Reportable Segments

The analysis of Neo's reportable segments, which follows the discussion of its consolidated results, presents operating results on a gross basis (i.e., before intercompany eliminations).

9.1 Magnequench

($000s, except volume)	**Year Ended December 31,**				**Three Months Ended December 31,**			
	2020	**2019**	**Change**	**%**	**2020**	**2019**	**Change**	**%**
Operating income	**$ 20,027**	**$ 28,987**	**$ (8,960)**	(30.9%)	**$ 8,102**	**$ 7,207**	**$ 895**	12.4%
Net income	**$ 16,437**	**$ 23,628**	**$ (7,191)**	(30.4%)	**$ 7,356**	**$ 6,174**	**$ 1,182**	19.1%
Add back (deduct):								
Finance cost (income), net	30	60	(30)		(29)	35	(64)	
Income tax expense	4,318	6,291	(1,973)		776	908	(132)	
Depreciation and amortization included in Costs of Sales	3,181	2,486	695		815	735	80	
Depreciation and amortization included in operating expenses	5,760	5,554	206		1,484	1,432	52	
EBITDA	**29,726**	**38,019**	**(8,293)**	(21.8%)	**10,402**	**9,284**	**1,118**	12.0%
Other income [(1)]	(138)	(170)	32		(21)	(68)	47	
Foreign exchange loss (gain) [(2)]	440	(442)	882		(2)	148	(150)	
Equity (income) loss of associates	(1,060)	(380)	(680)		22	10	12	
Share and value-based compensation [(3)]	960	(267)	1,227		1,003	96	907	
Other costs[(4)]	—	293	(293)		—	75	(75)	
Adjusted EBITDA	**$ 29,928**	**$ 37,053**	**$ (7,125)**	(19.2%)	**$ 11,404**	**$ 9,545**	**$ 1,859**	19.5%
Adjusted EBITDA Margins	19.6%	21.3%			21.7%	22.3%		
Revenue	$ 152,966	$ 173,800	$ (20,834)	(12.0%)	$ 52,553	$ 42,748	$ 9,805	22.9%
Sales volume (tonnes)	5,016	5,584	(568)	(10.2%)	1,626	1,387	239	17.2%

Notes:

(1) Represents other expenses resulting from non-operational related activities. These costs and recoveries are not indicative of Neo's ongoing activities.

(2) Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.

(3) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for 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 is included in selling, general, and administration expenses. For the year ended and three months ended December 31, 2020, value-based compensation was $848 and $935, respectively. For the year ended and three months ended December 31, 2019, value-based compensation (recovery)/expense was $(503) and $25, respectively. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(4) These costs are related to legal, professional advisory fees and other transaction costs incurred associated with the acquisition of assets from Anhui Asia Magnets Co., Ltd. in the year ended and three months ended December 31, 2019. These charges were included in selling, general, and administrative expense.

For the year ended December 31, 2020, revenue in the Magnequench segment was $153.0 million, compared to $173.8 million in the year ended December 31, 2019; a decrease of $20.8 million or 12.0%. For the three months ended December 31, 2020, revenue in the Magnequench segment was $52.6 million, compared to $42.7 million in the three months ended December 31, 2019; an increase of $9.8 million or 22.9%. For the year ended December 31, 2020, volume decreased to 5,016 tonnes, compared to 5,584 tonnes in the same period in 2019; a decrease of 10.2%. Volume increased to 1,626 tonnes compared to 1,387 tonnes in the three months ended December 31, 2019. Generally, the differing rates of change for revenue and volumes are primarily attributed to changes in commodity input material prices and, to a lesser extent, product mix. Magnequench has material pass-through agreements with the vast majority of its customers, which enables Magnequench to pass through changes in material input costs into selling price on a lagged basis.

Operating income for the year ended December 31, 2020 was $20.0 million, a decrease of $9.0 million compared to the year ended December 31, 2019. For the three months ended December 31, 2020, operating income was $8.1 million compared to $7.2 million in the same period in 2019; an increase of $0.9 million or 12.4%.

For the year ended December 31, 2020, volumes in the Magnequench segment were adversely affected by customer shutdowns and slowdowns, primarily as a result of the continued impact of COVID-19. The slowdown of volumes was seen across most applications that utilize Magnequench's NdFeB magnetic powders. However, Magnequench saw increases in the production and sales of NdFeB CM magnets, particularly with respect to sales from the SAMAG business purchased in 2019. The current magnet product line, which services primarily laptop computers and consumer electronics has been on a growth trajectory gaining market share since the purchase by Magnequench. In addition, Magnequench benefited from various cost-cutting initiatives including reducing production shifts at the manufacturing locations during the year.

Volumes, revenues and earnings are all higher in the three months ended December 31, 2020 compared to the prior year and compared to the prior sequential quarters. Certain programs and end markets, including traction motors for hybrid and electric vehicles, that utilize Magnequench NdFeB powders and CM magnets began to recover in the latter half of the third quarter and continued to recover and grow in the fourth quarter of 2020, partially due to some economic recovery and partially due to supply chains being refilled.

For the year ended December 31, 2020, Adjusted EBITDA in the Magnequench segment was $29.9 million, compared to $37.1 million in 2019; a decrease of $7.1 million. For the three months ended December 31, 2020, Adjusted EBITDA was $11.4 million, an increase of $1.9 million compared to the same period of the prior year. Sales volumes, and their impact on margins and overhead absorption, were the largest contributors to the decrease in Adjusted EBITDA with other impacts being from mix, price reductions, timing of certain operational activities, changes in foreign exchange rates, and timing of pricing pass-through mechanics on material inputs.

9.2 *Chemicals & Oxides*

($000s, except volume)	Year Ended December 31,				Three Months Ended December 31,			
	2020	**2019**	**Change**	%	**2020**	**2019**	**Change**	%
Operating (loss) income	**$ (26,505)**	**$ 18,354**	**$ (44,859)**	(244%)	**$ 5,124**	**$ 2,898**	**$ 2,226**	76.8%
Net (loss) income	**$ (25,039)**	**$ 13,102**	**$ (38,141)**	(291%)	**$ 3,743**	**$ 322**	**$ 3,421**	1,062%
Add back (deduct):								
Finance (income) cost, net	(141)	(151)	10		10	(49)	59	
Income tax (benefit) expense	(2,256)	1,984	(4,240)		507	73	434	
Depreciation and amortization included in Costs of Sales	3,042	3,517	(475)		542	989	(447)	
Depreciation and amortization included in operating expenses	1,260	1,558	(298)		263	390	(127)	
EBITDA	**(23,134)**	**20,010**	**(43,144)**	(216%)	**5,065**	**1,725**	**3,340**	194%
Other expense (1)	676	2,802	(2,126)		816	2,946	(2,130)	
Foreign exchange loss (gain) (2)	255	617	(362)		48	(394)	442	
Share and value-based compensation (3)	1,089	(672)	1,761		1,174	25	1,149	
Impairment of assets (4)	35,064	—	35,064		—	—	—	
Other costs(5)	—	115	(115)		—	115	(115)	
Adjusted EBITDA	**$ 13,950**	**$ 22,872**	**$ (8,922)**	(39.0%)	**$ 7,103**	**$ 4,417**	**$ 2,686**	60.8%
Adjusted EBITDA Margins	9.7%	14.5%			14.7%	13.1%		
Revenue	$ 143,322	$ 158,226	$ (14,904)	(9.4%)	$ 48,433	$ 33,650	$ 14,783	43.9%
Sales volume (tonnes)	7,348	7,841	(493)	(6.3%)	2,018	1,940	78	4.0%

Notes:

(1) Represents other expenses resulting from non-operational related activities. These costs and recoveries are not indicative of Neo's ongoing activities.

(2) Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.

(3) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for 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 is included in selling, general, and administration expenses. For the year ended and three months ended December 31, 2020, value-based compensation expense was $1,065 and $1,173, respectively. For the year ended and three months ended December 31, 2019, value-based compensation (recovery)/expense was $(690) and $16, respectively. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(4) The negative economic impacts of COVID-19 were determined to be an impairment indicator during the second quarter of 2020 for all of Neo's groups of CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's groups of CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of $59.1 million for the year ended December 31, 2020, with $35.1 million attributable to the C&O segment.

(5) These represent restructuring costs related to management team changes in Neo's subsidiaries. Neo has removed these charges to provide comparability with historic periods.

For the year ended December 31, 2020, revenue in the C&O segment was $143.3 million, compared to $158.2 million in 2019; a decrease of $14.9 million or 9.4%. For the three months ended December 31, 2020, revenue in the C&O segment was $48.4 million, compared to $33.7 million in the same period in 2019; an increase of $14.8 million or 43.9%.

For the year ended December 31, 2020, an operating loss of $26.5 million was reported, compared to an operating income of $18.4 million in 2019. The operating loss in 2020 was mainly due to the $35.1 million impairment charge recorded in the second quarter of 2020. For the three months ended December 31, 2020, the C&O segment reported operating income of $5.1 million compared to $2.9 million in the prior year; an increase of $2.2 million or 76.8%.

C&O recorded an impairment charge of $35.1 million in second quarter of 2020. The impairment charge, triggered, in part by the economic impacts of COVID-19, relates to reduced expected future cash flows and changes in discount rates causing the recoverable amount to be less than the carrying values of the segment in the financial statements. This non-cash impairment charge largely relates to non-productive assets whose value was adjusted as a result of purchase price accounting applied in September 2016, upon the emergence from bankruptcy of the predecessor company.

For the year ended December 31, 2020, volumes in the C&O segment were affected by the general economic slowdown, primarily as a result of COVID-19. Customers of environmental catalysts had various periods of shutdowns and slowdowns and markets for rare earth products were slowed in terms of both volume and price. Overall, for the year ended December 31, 2020, C&O auto-catalyst volumes performed slightly ahead of the prior year despite the slowdown in automotive due to market share gains and new product launches. However, C&O did not record any meaningful spot sales in the year whereas the prior year had significant spot sales in earlier quarters. Volumes and revenues in water treatment products exceeded prior years but growth was slowed during the year due to new customers trials and launches being delayed due to COVID-19. In addition, C&O implemented both cost-cutting initiatives and initiatives to reduce working capital including idling certain production facilities for a period of time. In the year ended December 31, 2020, C&O recorded an increase in its SG&A costs related to ongoing patent disputes (see "*Other Expenditures and Legal Contingencies*").

As certain portions of the economy began to recover, in the three months ended December 31, 2020, the C&O segment saw growth in the auto-catalyst segment compared to the prior year, and particularly compared to the prior sequential quarters, supported by market share gains and new product launches. A portion of these strong volumes is related to the economic recovery and a portion is related to refilling the supply chain. In rare earth separation, C&O benefited from an increase in the market price of certain products in the latter portion of the third quarter and continuing into the fourth quarter of 2020, fueled by increased demand, primarily in magnetic applications, as the economy rebounds from the impact of COVID-19.

On March 1, 2021, Neo announced that it entered into a non-binding agreement in principle with Energy Fuels Inc., to create an initiative to produce value-added rare earth products from natural monazite sands, a by-product of heavy mineral sands mined in the southeastern U.S. Energy Fuels will process the monazite sands into a mixed rare earth carbonate in Utah for use as feed material for rare earth separation production in Silmet.

For the year ended December 31, 2020, Adjusted EBITDA was $14.0 million, compared to $22.9 million in 2019; a decrease of $8.9 million or 39.0%. For the three months ended December 31, 2020, Adjusted EBITDA in the C&O segment was $7.1 million, compared to $4.4 million in the same period in the prior year; an increase of $2.7 million or 60.8%.

9.3 *Rare Metals*

($000s, except volume)	Year Ended December 31,				Three Months Ended December 31,			
	2020	2019	Change	%	2020	2019	Change	%
Operating loss	**$ (30,006)**	**$ (384)**	**$ (29,622)**	7,714%	**$ (4,209)**	**$ (15)**	**$ (4,194)**	27,960%
Net (loss) income	**$ (32,991)**	**$ (4,202)**	**$ (28,789)**	685%	**$ (3,171)**	**$ 730**	**$ (3,901)**	(534%)
Add back (deduct):								
Finance cost (income), net	1,096	2,581	(1,485)		(2,439)	326	(2,765)	
Income tax (benefit) expense	(391)	1,939	(2,330)		(423)	459	(882)	
Depreciation and amortization included in Costs of Sales	3,207	3,962	(755)		642	932	(290)	
Depreciation and amortization included in operating expenses	394	582	(188)		68	155	(87)	
EBITDA	**(28,685)**	**4,862**	**(33,547)**	(690%)	**(5,323)**	**2,602**	**(7,925)**	(305%)
Other expense (income) (1)	1,729	(1,199)	2,928		1,470	(1,911)	3,381	
Foreign exchange loss (2)	551	497	54		354	381	(27)	
Share and value-based compensation (3)	196	(157)	353		202	(6)	208	
Impairment of assets (4)	24,020	1,014	23,006		—	—	—	
Other costs(5)	—	115	(115)		—	115	(115)	
Adjusted EBITDA	**$ (2,189)**	**$ 5,132**	**$ (7,321)**	(143%)	**$ (3,297)**	**$ 1,181**	**$ (4,478)**	(379%)
Adjusted EBITDA Margins	(3.7%)	5.7%			(27.3%)	5.5%		
Revenue	$ 59,688	$ 90,622	$ (30,934)	(34.1%)	$ 12,096	$ 21,564	$ (9,468)	(43.9%)
Sales volume (tonnes)	412	534	(122)	(22.8%)	89	128	(39)	(30.5%)

Notes:

(1) Represents other expenses resulting from non-operational related activities. These costs and recoveries are not indicative of Neo's ongoing activities.

(2) Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.

(3) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for 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 is included in selling, general, and administration expenses. For the year ended and three months ended December 31, 2020, value-based compensation expense was $183 and $202, respectively. For the year ended and three months ended December 31, 2019, value-based compensation recovery was $(167) and $(10), respectively. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(4) The negative economic impacts of COVID-19 were determined to be an impairment indicator during the second quarter of 2020 for all of Neo's groups of CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's groups of CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of $59.1 million for the year ended December 31, 2020, with $24.0 million attributable to the Rare Metals segment. For the year ended December 31, 2020, the $1.0 million impairment in the Rare Metals segment represents impairment of property, plant and equipment and other assets related to the closure of NRM Utah that will not be utilized as a result of the closure.

(5) These represent restructuring costs related to management team changes in Neo's subsidiaries. Neo has removed these charges to provide comparability with historic periods.

For the year ended December 31, 2020, revenue in the Rare Metals segment was $59.7 million, compared to $90.6 million in the prior year; a decrease of $30.9 million or 34.1%. For the three months ended December 31, 2020, revenue in the Rare Metals segment was $12.1 million, compared to $21.6 million in the same period in the prior year; a decrease of $9.5 million or 43.9%.

For the year ended December 31, 2020, the Rare Metals segment reported an operating loss of $30.0 million compared to $0.4 million in 2019. The operating loss in 2020 was mainly due to the $24.0 million impairment charge recorded in the second quarter. For the three months ended December 31, 2020, the Rare Metals segment reported operating loss of $4.2 million compared to nominal loss in the same period of the prior year.

Rare Metals recorded an impairment charge of $24.0 million in the second quarter of 2020. The impairment charge, triggered in part by the economic impacts of COVID-19, relates to reduced expected future cash flows and changes in discount rates causing the recoverable amount to be less than the carrying values of the segment in the financial statements. This non-cash impairment charge largely relates to non-productive assets whose value was adjusted as a result of purchase price accounting applied in September 2016, upon the emergence from bankruptcy of the predecessor company.

Operationally, the Rare Metals segment was impacted by lower volumes and selling prices in the year ended and three months ended December 31, 2020 compared to the prior-year comparable periods. These lower volumes and selling prices were largely a result of the impact of COVID-19 impacting customer demand and the related supply chains, including receiving supply of raw materials. This decline was across most of the Rare Metals end markets; with the largest end market being aerospace applications. The end markets of Rare Metals, primarily aerospace, did not have the same recovery in economic activity as other end markets like automotive or general industrial in the fourth quarter. Further, Rare Metals was impacted by a decrease in the market selling price of a number of its products late in fourth quarter of 2020 causing a $3.3 million inventory write-down in the fourth quarter related to inventory purchased in prior periods. Rare Metals has now ceased production for a small product set where COVID-19 has impacted demand and pricing.

For the year ended December 31, 2020, Adjusted EBITDA in the Rare Metals segment was $(2.2) million, compared to $5.1 million in 2019; a decrease of $7.3 million. For the three months ended December 31, 2020, Adjusted EBITDA in the Rare Metals segment was $(3.3) million, compared to $1.2 million in the same period in 2019; a decrease of $4.5 million.

10. Summary of Consolidated Quarterly Results

($000s, except for earnings per share information)	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**$110,397**	**$77,864**	**$67,734**	**$90,697**	**$94,553**	**$102,645**	**$101,736**	**$108,530**
Net income (loss) attributable to equity holders of Neo	**2,219**	**423**	**(60,936)**	**363**	**4,639**	**3,944**	**2,090**	**12,247**
Basic EPS	0.06	0.01	(1.62)	0.01	0.12	0.10	0.05	0.31
Diluted EPS	0.06	0.01	(1.62)	0.01	0.12	0.10	0.05	0.31
Operating income (loss)	**3,190**	**1,137**	**(64,993)**	**5,007**	**7,014**	**8,399**	**5,850**	**16,239**
Net income (loss)	**2,356**	**401**	**(63,364)**	**518**	**4,483**	**4,072**	**2,293**	**12,227**
Add back (deduct):								
Finance (income) cost, net	(2,484)	99	2,318	945	266	353	309	1,382
Income tax expense (benefit)	832	1,198	(3,229)	2,842	1,278	3,612	2,360	2,835
Depreciation and amortization included in Costs of Sales	1,999	1,996	2,715	2,720	2,656	2,546	2,353	2,410
Depreciation and amortization included in operating expenses	1,899	1,797	2,018	2,036	2,062	1,971	2,014	1,985
EBITDA	**4,602**	**5,491**	**(59,542)**	**9,061**	**10,745**	**12,554**	**9,329**	**20,839**
Add back:								
Other expense (income) (1)	2,253	92	(221)	194	1,027	(129)	468	126
Foreign exchange loss (gain) (2)	211	128	(138)	450	(50)	662	401	(93)
Equity loss (income) of associates	22	(781)	(359)	58	10	(171)	19	(238)
Share and value-based compensation (3)	3,584	931	(153)	(118)	443	153	773	(2,199)
Impairment of assets (4)	—	—	59,084	—	—	—	1,014	—
Other costs (recoveries) (5)	1,636	(131)	2,520	—	305	(283)	—	(1,949)
Adjusted EBITDA	**$12,308**	**$ 5,730**	**$ 1,191**	**$ 9,645**	**$12,480**	**$12,786**	**$12,004**	**$16,486**
Adjusted EBITDA Margins	*11.1%*	*7.4%*	*1.8%*	*10.6%*	*13.2%*	*12.5%*	*11.8%*	*15.2%*

Notes:

(1) Represents other expenses resulting from non-operational related activities. These costs and recoveries are not indicative of Neo's ongoing activities.

(2) Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.

(3) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(4) The negative economic impacts of COVID-19 were determined to be an impairment indicator during the second quarter of 2020 for all of Neo's groups of CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's groups of CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of $59.1 million for the year ended December 31, 2020, with $35.1 million attributable to the C&O segment and $24.0 million attributable to the Rare Metals segment. No impairment was recorded against the Magnequench segment. In 2019, the $1.0 million impairment in the Rare Metals segment represents impairment of property, plant and equipment and other assets related to the closure of NRM Utah that will not be utilized as a result of the closure.

(5) These represent primarily legal, professional advisory fees and other transaction costs incurred/(recovered) with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.

11. Liquidity and Capital Resources

Year ended December 31, 2020 compared to year ended December 31, 2019:

	Year Ended December 31,	
($000s)	**2020**	**2019**
Cash flow:		
Cash provided by operating activities	$ 10,070	$ 71,297
Cash used in investing activities	(7,362)	(22,893)
Cash used in financing activities	(17,696)	(34,591)

Financial position - as at	**December 31, 2020**	**December 31, 2019**
Cash and cash equivalents	$ 72,224	$ 84,735
Restricted cash	4,219	4,185
Property, plant and equipment	74,322	94,490
Total assets	486,542	531,231
Bank advances and other short-term debt	2,428	54

As of December 31, 2020, Neo had cash and cash equivalents of $72.2 million plus restricted cash of $4.2 million, compared to $84.7 million plus $4.2 million as at December 31, 2019. Neo paid $11.3 million in dividends to its shareholders, $3.7 million to its non-controlling interest, and purchased $3.1 million of its shares under the Normal Course Issuer Bid program in the year ended December 31, 2020. In addition, Neo has approximately $6.8 million available under its credit facilities with $2.4 million drawn as at December 31, 2020 and a nominal amount drawn as at December 31, 2019. Neo's financial position and ability to generate cash from its operations in the short and long-term remain sound.

The primary cash inflows and outflows contributing to the change from December 31, 2019 were the following:

Inflows

- $20.5 million from operations before net change in working capital, income taxes paid and net interest received; and
- $2.4 million from bank advances.

Outflows

- $11.3 million of dividends paid to shareholders;
- $3.7 million of dividends paid to the non-controlling interest;
- $7.6 million of other capital spending;
- $3.1 million on the repurchase of Neo's common shares;
- $8.6 million of income taxes paid; and
- $1.8 million net change in working capital.

Cash Provided by Operating Activities

Net cash provided by operating activities was $10.1 million during the year ended December 31, 2020, compared to net cash provided by operating activities of $71.3 million for the year ended December 31, 2019. Lower cash flow from operating activities was primarily due to lower operating performance in the year ended December 31, 2020, and an increase in net working capital. The year ended December 31, 2019 benefited from a decrease in working capital of $29.0 million.

The $1.8 million net change in working capital for the year ended December 31, 2020, was primarily attributable to the increase in accounts receivable and inventory, offset by the increase in accounts payable and other accrued charges.

Cash Used in Investing Activities

For the year ended December 31, 2020, net cash used in investing activities was $7.4 million, compared to $22.9 million in the year ended December 31, 2019. The cash used in investing activities was primarily related to capital projects performed at the Zibo, Tianjin and Silmet facilities. These capital projects included a combination of maintenance capital to assist with the continuing development and operations of Neo, growth capital to assist in adding new capacity or new products, and strategic capital tied to longer-term strategic planning initiatives. In the year ended December 31, 2019, $9.3 million of the capital expenditures was related to the acquisition of the SAMAG business for Magnequench.

Cash Used in Financing Activities

Net cash used in financing activities during the year ended December 31, 2020 was $17.7 million, compared to $34.6 million in 2019. In the year ended December 31, 2020, Neo drew $2.4 million from its revolving line of credit in Germany, Neo distributed $11.3 million in dividends to its shareholders and $3.7 million to non-controlling interest partners and spent $3.1 million on the repurchase of common shares and $1.7 million in lease payments. In the year ended December 31, 2019, Neo distributed $11.5 million in dividends to its shareholders and $0.9 million to non-controlling interest partners, spent $16.9 million on the repurchase of common shares, repaid $3.9 million of bank advances in Germany and spent $1.1 million in lease payments.

($000s)

Cash and cash equivalents by Country as at	**December 31, 2020**	**December 31, 2019**
China (including Hong Kong)	$ 34,512	$ 35,234
Estonia	1,847	6,569
United States	8,428	11,698
Canada	2,968	9,687
Japan	3,013	2,501
United Kingdom	6,875	4,546
Germany	3,815	3,587
Singapore	5,570	4,122
Barbados	309	1,481
Thailand	3,827	4,021
Cayman Islands	32	2
Other	1,028	1,287
Total cash and cash equivalents	**$ 72,224**	**$ 84,735**

Approximately $5.7 million of cash on hand held by Neo's foreign operating subsidiaries relate to earnings that are considered indefinitely reinvested in these foreign subsidiaries. Although substantially all of Neo's cash and cash equivalents can be repatriated, a portion may be subject to withholding taxes under current tax laws. While some of Neo's subsidiaries are subject to local governmental restrictions on the flow of capital into and out of their jurisdictions (including in the form of cash dividends, loans or advances), these restrictions have not had a material impact on Neo's ability to meet its cash obligations. Therefore, Neo does not consider this to be a significant risk on its ability to meet ongoing commitments and fund operations.

In addition to cash on hand, the primary sources of liquidity for Neo's domestic and foreign subsidiaries are cash provided by operations and, in the case of the activities in China and Germany, borrowing under certain bank loans. From time to time, the sources of liquidity for Neo's operating subsidiaries may be supplemented by intercompany loans in the form of unsecured promissory notes. Neo's operating subsidiaries' liquidity generally is used to fund their working capital requirements, investments, capital expenditures (including costs related to the relocation of Zibo production facility) and third-party debt service requirements.

12. Contractual Obligations

In the normal course of business, Neo is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancellable.

	Payments Due by Period				
($000s)	**1 year**	**2 - 3 years**	**4 - 5 years**	**Thereafter**	**Total**
Bank advances and other short-term debts	$ 2,428	$ —	$ —	$ —	2,428
Accounts payable and other accrued charges	79,106	—	—	—	79,106
Derivative liability (1)	9,428	—	—	—	9,428
Provisions (2)	2,628	4,201	—	—	6,829
Lease obligations (3)	1,297	1,726	473	44	3,540
Other liabilities	940	1,513	—	—	2,453
Total	**$ 95,827**	**$ 7,440**	**$ 473**	**$ 44**	**$ 103,784**

Notes:

(1) Represents the fair value of the put option on shares of the remaining shareholder of Buss & Buss.

(2) Represents management's best estimate of the costs to be incurred by Neo for the disposal of the hazardous NORM currently being stored at the Silmet facility and JAMR facility.

(3) Represents the present value of Neo's lease obligations for office space, land and office equipment.

As at December 31, 2020, Neo had $72.2 million of cash and cash equivalents and approximately $4.2 million of restricted cash. The restricted cash is held as collateral against Letters of Credit and the Silmet NORM provision. Neo believes that the remainder of its cash, in addition to cash from operating activities, is available (or sufficient) to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months. Neo considers cash to be "available" to the extent it can be utilized in operating activities, for capital expenditures, for intercompany loans or for repatriation. Neo also maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

13. Normal Course Issuer Bid

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

For the year ended December 31, 2020, Neo repurchased and canceled 396,936 shares for a total consideration of $3.1 million. For the year ended December 31, 2019, Neo repurchased and canceled 1,902,631 shares under a previously announced normal course issuer bid for a total consideration of $16.9 million.

14. Subsequent Events

Dividends payable to equity holders of Neo

On March 10, 2021, the Board of Directors declared a quarterly dividend of Cdn $0.10 per common share payable in cash on March 30, 2021, to common shareholders of record at the close of business on March 22, 2021.

Normal Course Issuer Bid

Between January 1 and March 19, 2021, Neo repurchased, for cancellation, 3,400 shares for a total consideration of $37 thousand.

Completion of Bought Deal Offering of Common Shares of Neo

On February 17, 2021, Neo completed a bought deal secondary offering of common shares of Neo. Funds managed by Oaktree sold an aggregate of 5,175,000 common shares of Neo under the Offering at Cdn $15.75 per share for total gross proceeds to the Selling Shareholders of approximately Cdn $81.5 million. Following the completion of the secondary offering, Oaktree holds an aggregate of 17,109,155 common shares of Neo, representing approximately 45.7% of the issued and outstanding common shares of Neo.

Under the terms of the Legacy Plan, certain stock-based awards will vest upon Oaktree owning less than 51% of the total outstanding common shares of Neo. The completion of this bought deal secondary offering of common shares of Neo, constituted a liquidity event under the Legacy Plan. As a result, 423,875 equity-settled PSUs, 1,445 equity-settled RSUs, 13,335 cash-settled PSUs and 3,516 cash-settled RSUs will vest, while 211,941 equity-settled PSUs and 6,667 cash-settled PSUs will be cancelled in the first quarter of 2021.

There is no impact to the calculation of (loss) earnings per share or diluted (loss) earnings per share for the year ended December 31, 2020, as the vested PSUs and RSUs are anti-dilutive. There is also no impact on share-based compensation expense for the year ended December 31, 2020. At December 31, 2020, the accrual for the value bonus relating to the liquidity event was $3.2 million. Neo expects to settle the liability in the second quarter of 2021.

Shanxi Jiahua Galaxy Electronic Materials Co., Ltd.

On December 18, 2020, Neo entered into an equity transfer agreement with Jia Cheng Rare Metals Technology (Hainan) Co., Ltd. ("**JCRMT**"), a non-related party, to sell Neo's entire holdings of Shanxi's equity (60% of the equity interest of Shanxi) for total gross proceeds of $0.1 million. The transaction was completed on January 26, 2021.

15. Off-Balance Sheet Arrangements

As of December 31, 2020, Neo's only off-balance sheet arrangements are purchase obligations.

16. 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.

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 Neo'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.

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 recoverable amount, management estimates expected future cash flows from each asset or CGU and determines a suitable discount 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 Neo'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.

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.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2020, management assessed that the useful lives represented the expected utility of the assets to Neo.

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.

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. The 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.

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. 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.

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.

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.

Measurement uncertainty

Given the magnitude and duration of the spread of the COVID-19 pandemic and the negative impact it already had on the global economy and financial markets, Neo continues to monitor the ongoing situation of the COVID-19 pandemic and its impacts will depend on future developments such as the duration and severity of the disease, possibility of resurgence, and actions taken by authorities to control the spread of the disease. The extent of the impact the disease may have on Neo's business remains highly uncertain and cannot be predicted with confidence.

Any future developments related to the COVID-19 pandemic could have a material adverse effect on Neo's business and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in Neo's financial statements could change in the near term and the effect of any such changes could be material, which could result in, among other things, an impairment of non-current assets and a change in the expected credit losses on accounts receivable. Neo is regularly evaluating the COVID-19 situation and monitoring any impacts on its business.

17. Related Party Transactions and Balances

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

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

Transactions with associates

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

For the year ended December 31, 2020, Neo purchased $1.5 million worth of compounds from TMT, purchased metals and received services from Keli amounting to $46.1 million, and received services from GQD amounting to $1.6 million.

For the year ended December 31, 2020, Neo sold Magnequench Powders and performed services amounting to $3.9 million to TMT. For the year ended December 31, 2020, Neo sold oxides to Keli amounting to $2.5 million.

For the year ended December 31, 2019, Neo purchased $1.4 million worth of compounds from TMT, purchased metals and received services from Keli amounting to $35.9 million, and received services from GQD amounting to $1.0 million.

For the year ended December 31, 2019, Neo sold Magnequench Powders and performed services, amounting to $4.0 million to TMT. For the year ended December 31, 2019, Neo sold oxides to Keli amounting to $1.2 million.

Transactions with joint venture partners

Neo, through its sales company in Japan, Neo Japan Inc., has occasionally purchased Gallium from Beijing Jiya Semiconductor Material Co., Ltd. ("**Beijing Jiya**") for resale to third party customers. No purchases were made in the year ended December 31, 2020 and 2019.

Neo also has occasionally purchased and sold products from and to Ganzhou Qian Dong Rare Earth Group Co. Ltd. ("**Qian Dong**") and Toda Kogyo Corp. ("**Toda**"). For the year ended December 31, 2020, purchases from Qian Dong were $0.2 million. For the year ended December 31, 2020, sales to Toda were $0.3 million.

For the year ended December 31, 2019, purchases from Qian Dong were $0.4 million. Sales to Toda for the year ended December 31, 2019 were $0.5 million.

Transactions with other related parties

Neo, through one of its subsidiaries in China, MQCZ, has occasionally sold products to Atatsu Co., Ltd. ("**Atatsu**") for resale to third party customers. Atatsu is controlled by members of MQCZ's key management personnel. For the year ended December 31, 2020, sales to Atatsu were $0.2 million.

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

($000s)	**Year Ended December 31,**	
	2020	**2019**
Sale of goods and services to related parties	$ 6,915	$ 5,785
Purchase of goods and services from related parties	49,316	38,724

($000s)	December 31, 2020	December 31, 2019
Trade balances:		
from related parties	$ 501	$ 348
due to related parties	(17,338)	(5,215)
Total	**$ (16,837)**	**$ (4,867)**

Directors and Key Management Compensation

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:

($000s)	Year Ended December 31,	
	2020	2019
Directors	$ 404	$ 309
Key Executive Management	4,926	3,806
Total	$ 5,330	$ 4,115

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

($000s)	Year Ended December 31,	
	2020	2019
Directors	$ 672	$ 298
Key Executive Management	1,027	578
Total	$ 1,699	$ 876

For the year ended December 31, 2020, Neo recognized an expense of $1.8 million associated with the departure of a former member of Neo's executive management team.

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

18. Financial Instruments and Risk Management

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, 2020, are grouped into the fair value hierarchy as follows:

($000s)	Level 1	Level 2	Level 3
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	$ —	$ —	$ 9,428

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, 2020.

Neo is exposed to a number of risks in the normal course of business that have the potential to affect its performance. These risk factors include commodity price risk, foreign currency risk, credit risk and liquidity risk.

Commodity price risk

A portion of Neo's current business is conducted in the spot market; therefore, prices can vary with the transaction and individual bids received. Neo's products are primarily marketed to manufacturers as component materials. Prices will vary based on the demand for the end products being produced with the raw materials Neo processes.

Neo's sales and profitability are determined principally by the pricing of the advanced industrial materials it produces, and, to a lesser extent, by the price of natural gas and other supplies used in its production process. The prices of the rare earth products are influenced by the price and demand of the end products that Neo's products support, including automotive, electronics and clean energy technologies. A significant decrease in the global demand for these products may have a material adverse effect on Neo's business. Neo does not have hedging contracts for revenues and costs in place.

Neo's costs and capital investments are subject to market movements in other commodities such as natural gas and chemicals. Neo may enter into derivative contracts for a portion of the expected usage of these products, but it does not currently have any derivative contracts on these commodities, and it does not currently anticipate entering into derivative agreements on commodities.

Foreign currency risk

Neo is exposed to fluctuations of the U.S. dollar against the functional currencies of its foreign subsidiaries, including the Euro, the Canadian dollar, the Renminbi, the Thai baht and the Japanese Yen, when Neo translates its foreign subsidiaries' financial statements into U.S. dollars for inclusion in its consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive income (loss), a separate component of equity. Any increase (decrease) in the value of the U.S. dollar against those foreign currencies results in unrealized foreign currency translation losses (gains) with respect to assets acquired in, liabilities assumed from, intercompany balances with and results of operations from the foreign subsidiaries. Therefore, Neo may experience a negative impact on its comprehensive income (loss) and stockholders' equity with respect to its holdings in those subsidiaries as a result of foreign currency translation. Neo generally does not hedge against the risk that it may incur non-cash losses upon the translation of the financial statements of its foreign subsidiaries into U.S. dollars.

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 calculates a loss allowance using the expected credit loss impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at December 31, 2020, the loss allowance was approximately $0.2 million. The estimated credit losses are included in selling, general and administrative expenses in the consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose Neo to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at December 31, 2020, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

Liquidity risk

Neo is exposed to the possibility that it may not be able to meet its financial obligations as they fall due. Neo manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account its sales and receipts and matching the maturity profile of financial assets and liabilities. Neo continues to maintain sufficient cash and certain credit facilities which can be drawn upon to meet its operating and capital expenditure obligations as needed. The Board reviews and approves the annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisition and other major investments.

19. Recent Accounting Pronouncements

Neo adopted the following accounting standards and amendments to accounting standards during the year ended December 31, 2020:

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

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

- provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;

- require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;
- require lessees that apply the exemption to disclose that fact; and
- require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures.

The amendment was effective for annual reporting periods beginning on or after June 1, 2020. Earlier application was permitted. The amendment is also available for interim reports. The amendment was adopted by Neo on July 1, 2020. The amendment did not have a material impact on the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20. Internal Control Over Financial Reporting and Disclosure Controls and Procedures

Disclosure controls and procedures

Neo's Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") are responsible for establishing and maintaining disclosure controls and procedures for Neo. Neo maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis. The CEO and CFO have evaluated the design and operating effectiveness of Neo's disclosure controls and procedures ("**DC&P**") as at December 31, 2020 and based on the evaluation, the CEO and CFO have concluded that the DC&P were effective.

Internal controls over financial reporting

Neo's internal controls over financial reporting ("**ICFR**") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Neo's management is responsible for establishing and maintaining adequate ICFR for Neo. National Instrument 52-109 of the Canadian Securities Administrators requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for Neo and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to Neo's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. There have been no material changes during the quarter ended December 31, 2020. Neo's management, under the supervision of the CEO and CFO, has evaluated the design and operating effectiveness of Neo's ICFR based on the Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As at December 31, 2020, management assessed that Neo's ICFR were effective.

In designing such controls, management, including the CEO and CFO, recognized that due to inherent limitations, any controls, no matter how well designed and operating effectively, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect all errors and fraud with respect to the financial statement preparation and presentation. Additionally, management is required to use judgment in evaluating controls and procedures.

On August 26, 2019, Neo’s newly formed wholly owned subsidiary, MQCZ had acquired the SAMAG business. As of December 31, 2020, Neo management has completed its formal documentation and evaluation of both the design and operating effectiveness of internal controls over financial reporting of MQCZ.

21. Business Risks and Uncertainties

Neo's business activities exposes Neo to both risks and opportunities. Risk oversight and management processes are integral elements of Neo's approach to risk management and strategic planning initiatives to address both risks and opportunities.

Numerous risks and uncertainties could cause Neo's actual results or shareholder returns to differ materially from those expressed or implied, including those in the Forward-Looking Information, Financial Statements, other areas of this MD&A and Neo's 2020 Annual Information Form ("**AIF**") for the year ended December 31, 2020. Such risks and uncertainties include:

- Volatility in the price of Neo's common shares related to price or volume that may be unrelated to Neo's operating results;
- Payment of future dividends, which is at the discretion of the Board and may be subject to future restrictions or strategic initiatives;
- Difficulty in enforcing judgments in the jurisdictions in which Neo operates;
- The existence of a significant shareholder that may be able to direct a significant amount of voting power;
- Risks relating to the COVID-19 pandemic;
- Risks associated with relocation of Neo's production facility in Zibo such as the inability to successfully acquire the new land use rights, and design and build the new plant in compliance with applicable regulatory standards and necessary customer specifications;
- The variability in quarterly results particularly as it relates to commodity price changes and the inability to pass-through cost changes;
- Failure to adapt to new products and technologies that may impact the sales of Neo's products;
- Disruptions to manufacturing processes and supply related to internal or external factors;
- Risks associated with the international nature of the business, including foreign legal requirements and differences in business practices;
- Changes to the general economic, industry and market conditions, both domestically and in foreign markets;
- Potentially adverse tax consequences in various jurisdictions, including the repatriation of cash to other jurisdictions;
- The inability to maintain permits and operating licenses in the jurisdictions and segments in which Neo operates;
- The inability to continue to procure cost effective material, including rare earths as well as material subject to conflict materials regulations;
- Trade barriers, exchange controls, export restrictions and other matters related to the export of materials from the manufacturing locations;
- The inability to maintain technical advantages through continuous development, protecting know-how and trade secrets as well as enforcing intellectual property rights in the various jurisdictions;
- The inability to defend against various intellectual property rights and applications currently asserted or potentially asserted in the future, including the inability to continue to supply parts to Neo's customers without significant economic penalty;
- The management and expiry of the Joint Ventures that form part of Neo's operations;
- Changes in other regulations related to operating in the various jurisdictions, including changes with respect to the regulated rare earth industry in China;
- The inability to manage risks associated with the potential unauthorized use of Company Chops in China or any other unauthorized use of authority;
- Customers and supplier dependence, including the inability to continually develop new products that meet changing standards and requirements;
- The inability to manage environmental liability exposure and continue to operate in environmentally sensitive areas with respect to legal requirements that may continue to change over time;
- The inability to maintain the services of key personnel including senior management, key technical people and other key employees;
- The inability to protect Neo's information technology systems and protect against cybersecurity attacks or any other situations that may cause disruption to Neo's inability to access its data and manage its business;
- The entrance of other competitors or substituted technologies into the markets in which Neo operates.

In addition to other information contained in this MD&A, readers should carefully consider the preceding factors before making an investment in common shares of Neo. All risk factors should be considered because they could cause Neo's actual results or financial condition to differ materially from those discussed in forward-looking statements contained elsewhere in this MD&A. The preceding risk factors are not an all-inclusive listing of risks. Risks and uncertainties that are either not known to Neo or that Neo considers at this time to be immaterial or insignificant could also be detrimental to the ongoing affairs of Neo. If any of these risks occur, Neo's business, financial position, results of operations or cash flows could be materially adversely affected. Further discussion of the risk factors set out above can be found in Neo's AIF.

22. Outstanding Shares Data

Class of Equity Security	Numbers Outstanding
Common Shares	37,460,390
Stock Options*	1,186,541
Restricted Share Units & Performance Stock Units	637,261

*Each stock option can be exercised to purchase one common share.

The number of common shares outstanding as at March 19, 2021 is 37,456,990.

23. Legal Proceedings and Regulatory Actions

Legal Proceedings

From time to time, Neo and its subsidiaries are subject to litigation claims arising in the ordinary course of business, most of which involve alleged violations of the intellectual property rights of others. Neo manufactures and sells many products that use scientific formulations and processes, and its competitors may from time to time allege that they hold a patent on such formulations or processes that Neo has infringed. Neo generally believes that it has meritorious defenses to the actions that have been brought against it and vigorously pursues the defense of each such action, including but not limited to initiating legal proceedings to revoke or invalidate the patents Neo is alleged to have infringed. However, litigation outcomes are inherently unpredictable and may be even harder to predict for patent litigation since patents are issued separately by each country or applicable jurisdiction with different standards for infringement or invalidation, as well as differing levels of damages, including as a result of the number of customers and level of activity of Neo in a given country or jurisdiction.

If many or most of the proceedings initiated against Neo in respect of the patents held by others, described under *"Other Expenditures and Legal Contingencies"*, are finally determined in a manner adverse to Neo, there can be no assurance that such determinations would not have a material adverse effect upon Neo or upon its operations, cash flows, prospects or financial condition, and in some countries (or jurisdictions) listed in *"Other Expenditures and Legal Contingencies"*, management expects that an injunction or other remedy imposed for infringement will be materially adverse to Neo. It is not possible at this time to predict with any degree of certainty the impact upon Neo's operations in the event of such final adverse determinations. If injunctions were granted against it, Neo would be prohibited from manufacturing and distributing certain products in those jurisdictions subject to those injunctive orders. Neo could, in such event, re-establish its manufacturing capability for such products in jurisdictions not prohibited by any such orders, and thus would expect to encounter interruptions in its manufacturing of such products and in its ability to distribute such products to customers in jurisdictions not subject to such orders. The litigation proceedings described in this section affect certain products manufactured by Neo's C&O segment for use in auto catalysts. Neo manufactures a wide variety of products that are used in the production of auto catalysts, which accounted for 10% to 20% of total revenue. These products include multiple formulations in multiple jurisdictions to a number of different customers. We note; however, these claims do not affect all of the products manufactured by Neo's C&O segment, for use in auto catalysts nor do these claims pertain to all markets where such products are sold. Neo is not currently restricted with respect to the manufacture or distribution of any of its products as a result of ongoing litigation. However, in the event of final adverse determinations, Neo expects to take all available actions to mitigate the impacts of such rulings, including but not limited to continuing to pursue invalidation of the applicable patent (if not already decided) appealing the adverse rulings, obtaining licensing rights and finding new customer outlets. The geographically diverse nature of Neo's operations and that of certain of its customers potentially provides Neo with a measure of flexibility to manufacture the same products in certain other jurisdictions and continue to supply certain of its customers with the same products in certain other jurisdictions.

Neo also has the ability to work with customers to develop new products that may have a lower risk of potentially falling within the scope of existing patent claims.

Where appropriate, accruals are made in accordance with accounting standards for contingencies to provide for matters that are probable of resulting in an estimated loss. Based upon the status of the various cases, management's assessments of the likelihood of damages, and the advice of counsel, Neo has made accruals, as of December 31, 2020, for some of the proceedings outlined in *"Other Expenditures and Legal Contingencies"*, where Neo believes it would be more likely than not be liable for damages and other outflows of resources. Neo considers some of the other outstanding litigation as currently being too uncertain to result in accruals. Several of these actions are at a preliminary stage and have not gone to trial.

As mentioned above the laws concerning patents differ from country to country. Damages for patent infringement in Europe and China may include lost profits or a reasonable royalty, but enhanced damages for wilful infringement are generally not available, unlike the case in the United States.

See section entitled "*Legal Proceedings and Regulatory Actions*" in Neo's AIF.

Regulatory Actions

There have been no penalties or sanctions imposed against Neo by a court relating to provincial and territorial securities legislation or by a securities regulatory authority since incorporation.

24. Additional Information

Additional information is included in Neo's AIF available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com.