NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Neo Performance Materials Inc.

Opinion

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

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of profit or loss for the years then ended
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the

"***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Evaluation of indicators of reversal of impairment for property, plant, and equipment and intangible assets

Description of the matter

We draw attention to Notes 4.8, 4.9 and 4.18.2 to the financial statements. Property, plant and equipment and intangible assets are reviewed each reporting period to determine whether indicators of impairment or reversal of impairment exist. If an indicator of impairment or reversal of impairment exists, the Entity calculates the recoverable amount of the cash-generating units ("CGUs") to determine if any impairment loss or reversal of impairment is required. Significant judgment is involved in determining if there is an indication that an asset or a CGU may be impaired or there is an indication that a previously recognized impairment loss for an asset or a CGU has reversed because of a change in the estimates used to determine the impairment loss.

Why the matter is a key audit matter

We identified the evaluation of indicators of reversal of impairment of property, plant and equipment and intangible assets as a key audit matter. Significant auditor judgment was required in evaluating the results of our audit procedures due to the Entity's significant judgment in determining whether internal and external sources of information result in indicators of reversal of impairment.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the Entity's assessment of external indicators of reversal of impairment by considering whether quantitative and qualitative information in the analysis was consistent with external market and industry data.

We evaluated the Entity's assessment of potential internal indicators of reversal of impairment by comparing actual financial performance to forecasted results.

We compared the Entity's historical revenue, operating margin, and sales volumes expectations to actual results to assess the Entity's ability to accurately forecast.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

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

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

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

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

Toronto, Canada

March 9, 2022

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

	December 31, 2021	December 31, 2020
ASSETS		
Current		
Cash and cash equivalents	89,037	72,224
Restricted cash	1,283	4,219
Accounts receivable (Note 6)	65,209	51,851
Inventories (Note 7)	200,954	130,867
Income taxes receivable	1,667	2,186
Assets held for sale (Note 8)	—	415
Other current assets	19,211	13,889
Total current assets	**377,361**	**275,651**
Property, plant and equipment (Note 8)	73,378	74,322
Intangible assets (Note 9)	49,961	53,653
Goodwill (Note 10)	70,082	68,967
Investments (Note 11)	13,759	10,045
Deferred tax assets (Note 19)	6,638	3,040
Other non-current assets	2,903	864
Total non-current assets	**216,721**	**210,891**
Total assets	**594,082**	**$ 486,542**
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt (Note 12)	6,502	2,428
Accounts payable and other accrued charges	94,201	79,106
Income taxes payable	7,059	2,945
Provisions (Note 25)	5,560	2,628
Lease obligations (Note 13)	1,589	1,297
Derivative liability (Note 12)	14,704	9,428
Other current liabilities	1,455	940
Total current liabilities	**131,070**	**98,772**
Employee benefits (Note 24)	1,210	2,358
Provisions (Note 25)	15,127	4,201
Deferred tax liabilities (Note 19)	13,366	13,970
Lease obligations (Note 13)	1,388	2,243
Other non-current liabilities	1,405	1,513
Total non-current liabilities	**32,496**	**24,285**
Total liabilities	**163,566**	**123,057**
Non-controlling interest	2,891	1,490
Equity attributable to equity holders of Neo Performance Materials Inc.	427,625	361,995
Total equity	**430,516**	**363,485**
Total liabilities and equity	**594,082**	**$ 486,542**

Commitments and contingencies (Note 16)
Subsequent events (Note 30)

See accompanying notes

NEO PERFORMANCE MATERIALS INC.
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
(all figures in thousands of United States dollars, except per share information)

	Year Ended December 31,	
	2021	**2020**
Revenue	539,251	346,692
Costs of sales		
Costs excluding depreciation and amortization	380,548	256,928
Depreciation and amortization	8,176	9,430
Gross profit	150,527	80,334
Expenses		
Selling, general and administrative	58,445	53,702
Share-based compensation (Note 20)	4,526	1,733
Depreciation and amortization	7,689	7,750
Research and development	19,859	13,724
Impairment of assets	121	59,084
	90,640	135,993
Operating income (loss)	**59,887**	**(55,659)**
Other expense	(9,750)	(2,318)
Finance cost, net	(3,943)	(878)
Foreign exchange loss	(4,388)	(651)
Income (loss) from operations before income taxes and equity income of associates	41,806	(59,506)
Income tax expense (Note 19)	(9,580)	(1,643)
Income (loss) from operations before equity income of associates	32,226	(61,149)
Equity income of associates (net of income tax) (Note 11)	3,817	1,060
Net income (loss)	**$ 36,043**	**$ (60,089)**
Attributable to:		
Equity holders of Neo Performance Materials Inc.	$ 35,177	$ (57,931)
Non-controlling interest	866	(2,158)
	$ 36,043	**$ (60,089)**
Earnings (Loss) per share attributable to equity holders of Neo Performance Materials Inc.:		
Basic (Note 18)	$ 0.92	$ (1.54)
Diluted (Note 18)	$ 0.91	$ (1.54)

See accompanying notes

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

	Year Ended December 31,	
	2021	**2020**
Net income (loss) for the period	$ 36,043	$ (60,089)
Other comprehensive income:		
Item that will not be reclassified subsequently to profit or loss:		
Defined benefit pension plan actuarial gain (loss) (net of income tax expense (benefit): 2021 - $231; 2020 - $(119))	731	(379)
Item that is or may be reclassified subsequently to profit or loss:		
Currency translation adjustment	3,550	9,955
Other comprehensive income for the period	**4,281**	**9,576**
Total comprehensive income (loss) for the period	**$ 40,324**	**$ (50,513)**
Attributable to:		
Non-controlling interest	949	(2,164)
Equity holders of Neo Performance Materials Inc.	39,375	(48,349)
	$ 40,324	$ (50,513)

See accompanying notes

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

	Year Ended December 31,	
	2021	**2020**
Operating activities		
Net income (loss) for the period	$ 36,043	$ (60,089)
Add (deduct) items not affecting cash:		
Depreciation and amortization	15,865	17,180
Share-based compensation	4,526	1,733
Provisions (Note 25)	11,138	2,083
Change in pension liability	80	103
Finance costs, net	3,943	878
Equity income of associates (net of income tax) (Note 11)	(3,817)	(1,060)
(Gain) loss on disposal of assets	(278)	557
Income tax expense (Note 19)	9,580	1,643
Foreign exchange loss (gain)	1,225	(1,422)
Impairment of assets	121	59,084
Other	(388)	55
Net change in non-cash working capital balances related to operations (Note 15)	(70,737)	(1,812)
Cash contributions to defined benefit pension plan (Note 24)	(266)	(274)
Income taxes paid, net of income taxes recovered	(9,365)	(8,641)
Interest received, net of interest paid	168	269
Cash (used in) provided by operating activities	**$ (2,162)**	**$ 10,287**
Investing activities		
Additions of property, plant and equipment	(9,159)	(7,283)
Additions of intangible assets	(305)	(331)
Proceeds from sale of assets	426	—
Acquisition of equity securities (Note 12)	(776)	—
Dividends received from associates	103	—
Decrease in restricted cash	2,710	252
Other investing activities	(5)	—
Cash used in investing activities	**$ (7,006)**	**$ (7,362)**
Financing activities		
Increase in bank advances and other short-term debt, net	4,056	2,374
Dividends paid to non-controlling interest	—	(3,730)
Dividends paid to equity holders of Neo Performance Materials Inc.	(12,773)	(11,297)
Share-based compensation paid	(1,697)	—
Proceeds from issuance of common shares from treasury	38,004	—
Repurchase of common shares	(37)	(3,090)
Lease payments	(1,743)	(1,942)
Withholding taxes paid, net of amount received from issuance of common shares on stock-based awards	391	(228)
Cash provided by (used in) financing activities	**$ 26,201**	**$ (17,913)**
Effect of exchange rate changes on cash and cash equivalents	(220)	2,477
Cash provided (used) during the period	**16,813**	**(12,511)**
Cash and cash equivalents, beginning of period	72,224	84,735
Cash and cash equivalents, end of period	**$ 89,037**	**$ 72,224**

See accompanying notes

NEO PERFORMANCE MATERIALS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(all figures in thousands of United States dollars)

	Share Capital				Other Comprehensive Income			Total		
	Common Stock									
	Number	Amount	Retained Earnings (Deficit)	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains (Loss) (net of tax)	Accumulated Other Comprehensive Income	Equity Attributable to Equity Holders of NPM Inc.	Non-Controlling Interest	Equity
Balance - January 1, 2021	**37,460,390**	**$ 37**	**$ (41,657)**	**$ 400,771**	**$ 2,567**	**$ 277**	**$ 2,844**	**$ 361,995**	**$ 1,490**	**$ 363,485**
Net income	—	—	35,177	—	—	—	—	35,177	866	36,043
Other comprehensive income	—	—	—	—	3,467	731	4,198	4,198	83	4,281
Total comprehensive income	—	—	35,177	—	3,467	731	4,198	39,375	949	40,324
Equity purchased from non-controlling interest	—	—	—	—	—	—	—	—	(5)	(5)
Non-controlling interest on subsidiary sold (Note 1)	—	—	—	—	—	—	—	—	457	457
Share-based compensation	—	—	—	866	—	—	—	866	—	866
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(12,773)	—	—	—	—	(12,773)	—	(12,773)
Shares repurchased and canceled under Normal Course Issuer Bid (Note 17)	(3,400)	—	—	(37)	—	—	—	(37)	—	(37)
Issuance of common shares on stock-based awards (Note 20)	613,912	1	—	194	—	—	—	195	—	195
Issuance of common shares from treasury	2,598,000	3	—	38,001	—	—	—	38,004	—	38,004
	3,208,512	4	(12,773)	39,024	—	—	—	26,255	452	26,707
Balance - December 31, 2021	**40,668,902**	**$ 41**	**$ (19,253)**	**$ 439,795**	**$ 6,034**	**$ 1,008**	**$ 7,042**	**$ 427,625**	**$ 2,891**	**$ 430,516**
Balance - January 1, 2020	**37,798,956**	**$ 38**	**$ 27,571**	**$ 403,765**	**$ (7,394)**	**$ 656**	**$ (6,738)**	**$ 424,636**	**$ 3,997**	**$ 428,633**
Net loss	—	—	(57,931)	—	—	—	—	(57,931)	(2,158)	(60,089)
Other comprehensive income (loss)	—	—	—	—	9,961	(379)	9,582	9,582	(6)	9,576
Total comprehensive income (loss)	—	—	(57,931)	—	9,961	(379)	9,582	(48,349)	(2,164)	(50,513)
Purchase of equity from non-controlling interest	—	—	—	—	—	—	—	—	52	52
Share-based compensation	—	—	—	323	—	—	—	323	—	323
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(11,297)	—	—	—	—	(11,297)	—	(11,297)
Dividend distributions to non-controlling interest	—	—	—	—	—	—	—	—	(395)	(395)
Shares repurchased and canceled under Normal Course Issuer Bid (Note 17)	(396,936)	(1)	—	(3,089)	—	—	—	(3,090)	—	(3,090)
Issuance of common shares for Restricted Share Units exercised	58,370	—	—	(228)	—	—	—	(228)	—	(228)
	(338,566)	(1)	(11,297)	(2,994)	—	—	—	(14,292)	(343)	(14,635)
Balance - December 31, 2020	**37,460,390**	**$ 37**	**$ (41,657)**	**$ 400,771**	**$ 2,567**	**$ 277**	**$ 2,844**	**$ 361,995**	**$ 1,490**	**$ 363,485**

See accompanying notes

NOTE 1 NATURE OF OPERATIONS

Neo Performance Materials Inc. ("**Neo**", the "**Company**" or the "**Group**") is a Canadian public company traded on the Toronto Stock Exchange ("**TSX**") and was incorporated on September 12, 2017 under the *Business Corporations Act* (Ontario). Neo's registered and head office is located at 121 King Street West, Suite 1740, Toronto, Ontario, Canada, M5H 3T9.

On February 17, 2021, Neo completed a bought deal secondary offering of common shares of Neo. OPPS NPM S.à.r.l. and OPPS NPM II S.à.r.l, ("the **Selling Shareholders**"), affiliates of Oaktree Capital Management L.P. ("**Oaktre**e"), sold an aggregate of 5,175,000 common shares of Neo at Cdn. $15.75 per share for total gross proceeds to the Selling Shareholders of approximately Cdn. $81.5 million. Following the completion of this secondary offering, Oaktree held an aggregate of 17,109,155 common shares of Neo, which represented approximately 45.7% of the issued and outstanding common shares of Neo. This constituted a liquidity event under the Legacy Plan (Note 20).

On April 27, 2021, Neo completed a bought deal secondary offering of common shares of Neo. OPPS NPM S.à.r.l. (the "**Selling Shareholder**") sold an aggregate of 4,600,000 common shares of Neo under this secondary offering at Cdn. $19.75 per share for total gross proceeds to the Selling Shareholder of approximately Cdn. $90.9 million.

On November 16, 2021, Neo completed a bought secondary and treasury offering of common shares of Neo. Neo issued and sold from treasury an aggregate of 2,598,000 common shares at a price of Cdn. $19.25 per share for total gross proceeds to the Company of approximately Cdn. $50.01 million. The Selling Shareholder sold an aggregate of 2,631,000 common shares of Neo also at a price of Cdn. $19.25 per share for total gross proceeds to the Selling Shareholder of Cdn. $50.65 million.

As at December 31, 2021, Oaktree holds an aggregate of 9,878,155 common shares of Neo representing 26.0% of the issued and outstanding common shares of Neo.

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 1,845 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 one dedicated research and development ("**R&D**") centre in Singapore. Since 1994, Neo has leveraged its processing expertise to innovate and grow into a leading manufacturer of advanced industrial materials for specialty end markets. Neo has established itself as a leading commercial partner to some of the world’s largest customers in the automotive, manufacturing, semiconductor, advanced electronic and specialty chemical industries. As a result, Neo is well positioned in markets that are forecast to see robust, long-term growth driven by multiple global macro trends, such as vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and superalloys. Neo identifies growth markets driven by global macro trends such as these, and produces highly engineered industrial materials that are critical to the performance of applications in those markets.

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

Magnequench

The Magnequench segment, with more than 30 years of manufacturing experience, is the world leader in the production of permanent magnetic powders used in bonded and hot-deformed, fully dense neodymium-iron-boron ("**NdFeB**" or "**neo**") magnets. These powders are formed through Magnequench's market-leading technology related to the development, processing, and manufacturing of neo magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench Powder using a blend of various inputs. Magnequench also manufactures magnets using these bonded magnetic powders. These powders and bonded permanent magnets are used in the following: 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 RM segment sources, reclaims, produces, refines, and markets high-value specialty metals and their compounds. These products include both high-temperature metals (tantalum, niobium, hafnium and rhenium) and electronic metals (gallium and indium). Applications from products made in this segment primarily include superalloys for jet engines, medical imaging, wireless technologies and LED lighting. Other applications include flat panel displays, solar, steel additives, batteries and electronics applications.

On January 26, 2021, Neo completed the sale of its entire holdings of Shanxi Jiahua Galaxy Electronic Materials Co., Ltd. ("**Shanxi**")'s equity (60% of the equity interest of Shanxi) to Jia Cheng Rare Metals Technology (Hainan) Co., Ltd., a non-related party, for total gross proceeds of $0.1 million. Subsequent to the sale, Shanxi is no longer included in the consolidated results of Neo.

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.

NOTE 2 GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

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

The consolidated financial statements were approved and authorized for issuance by Neo's Board of Directors ("**Board**") on March 9, 2022.

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.

NOTE 3 BASIS OF PREPARATION

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

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

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Overall considerations

These consolidated financial statements have been prepared using accounting policies specified by those IFRS standards as issued by the IASB that are in effect at the end of the reporting period December 31, 2021.

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

4.2 Basis of Consolidation

4.2.1 Business Combinations

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

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

4.2.2 Subsidiaries and associates

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

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

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

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

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

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

Outlined below is information related to the Neo's subsidiaries and associates at December 31, 2021:

	Place of Business	**Entity Type**	**Economic Interest**	**Method**
Neo Cayman Holdings Ltd.	Cayman Islands	Subsidiary	100%	Consolidation
Neo Performance Materials ULC	Canada	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides, LLC	United States	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides (Europe) Ltd.	United Kingdom	Subsidiary	100%	Consolidation
Neo Rare Metals (Korea) Inc.	South Korea	Subsidiary	80%	Consolidation
Neo International Corp.	Barbados	Subsidiary	100%	Consolidation
Jiangyin Jiahua Advanced Material Resources Co., Ltd.	China	Subsidiary	95%	Consolidation
Neo Japan, Inc.	Japan	Subsidiary	100%	Consolidation
Neo Performance Materials (Singapore) Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Zibo Jiahua Advanced Material Resources Co., Ltd.	China	Subsidiary	98%	Consolidation
NPM Silmet OÜ	Estonia	Subsidiary	100%	Consolidation
Magnequench Japan, Inc.	Japan	Subsidiary	100%	Consolidation
Magnequench (Korat) Co., Ltd.	Thailand	Subsidiary	100%	Consolidation
Zibo Jia Xin Magnetic Materials Ltd.	China	Subsidiary	100%	Consolidation
Neo Rare Metals (Utah), LLC	United States	Subsidiary	100%	Consolidation
NPM Holdings (US), Inc.	United States	Subsidiary	100%	Consolidation
NMT Holdings GmbH	Germany	Subsidiary	100%	Consolidation
Buss & Buss Spezialmetalle GmbH	Germany	Subsidiary	50%	Consolidation

	Place of Business	Entity Type	Economic Interest	Method
Neo Rare Metals (Oklahoma), LLC	United States	Subsidiary	80%	Consolidation
Magnequench, LLC	United States	Subsidiary	100%	Consolidation
Magnequench Neo Powders Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Magnequench International, LLC	United States	Subsidiary	100%	Consolidation
Xin Bao Investment Limited	Hong Kong	Subsidiary	100%	Consolidation
Magnequench (Tianjin) Company Limited	China	Subsidiary	100%	Consolidation
Magnequench Limited	Barbados	Subsidiary	100%	Consolidation
Neo Performance Materials (Beijing) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench International Trading (Tianjin) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench GmbH	Germany	Subsidiary	100%	Consolidation
Neo Performance Materials Korea Inc.	South Korea	Subsidiary	100%	Consolidation
Neo US Holdings, Inc.	Canada	Subsidiary	100%	Consolidation
Neo Magnequench Distribution, LLC	United States	Subsidiary	100%	Consolidation
Magnequench Magnetics (Chu Zhou) Co., Ltd.	China	Subsidiary	100%	Consolidation
Neo Jia Hua Advanced Materials (Zibo) Co., Ltd.	China	Subsidiary	98%	Consolidation
Neo Water Treatment LLC	United States	Subsidiary	100%	Consolidation
Zibo Shijia Trading Co., Ltd.	China	Subsidiary	59.6%	Consolidation
Toda Magnequench Magnetic Material (Tianjin) Co., Ltd.	China	Joint venture	33%	Equity method
Gan Zhou Ke Li Rare Earth New Material	China	Joint venture	25%	Equity method
GQD Special Material (Thailand) Co., Ltd.	Thailand	Joint venture	20%	Equity method

4.2.3 Transactions eliminated on consolidation

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

4.3 Functional currency

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

4.3.1 Foreign currency transactions

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

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

4.3.2 Foreign operations

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

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

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

4.4 Segment reporting

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

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

4.5 Revenue recognition

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

4.6 Operating expenses

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

4.7 Goodwill

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

At the date of acquisition, goodwill is assigned to a CGU or group of cash generating units ("**CGUs**") that is expected to benefit from the synergies of the business combination. For the purpose of impairment testing, goodwill is allocated to Neo's operating segments, which are individual divisions and corresponds to the level at which goodwill is internally monitored by the CODM. Goodwill impairment is recognized for any excess of the carrying amount of the CGU (or group of CGUs) over its recoverable amount. The recoverable amount of a CGU or group of CGUs, is the greater of its value in use and its fair value less costs to sell. The recoverable amounts of the groups of CGUs are calculated using future cash flow projections based on financial forecasts approved by management.

Goodwill impairment charges are recognized in profit or loss and cannot be reversed in future periods.

4.8 Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives on a straight-line basis, ranging from 4 to 40 years for buildings, 2 to 20 years for machinery and equipment, and 2 to 50 years for right-of-use assets. As no finite useful life for land can be determined, related carrying amounts are not depreciated. Consistent with IAS 16, "significant components" with different useful lives from the original asset purchased or constructed are identified and depreciated using a representative useful life. Generally, maintenance and repairs are charged to expense as incurred. However, "major overhauls and replacements" are capitalized to the consolidated statements of financial position as a separate component, with the replaced part or previous overhaul derecognized from the statements of financial position and recorded in the statements of profit or loss.

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

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

In accordance with IAS 36 - Impairment of Assets, property, plant and equipment is reviewed each reporting period to determine whether indicators of impairment or reversal of impairment exist. If an indicator of impairment or reversal of impairment exists, the Entity calculates the recoverable amount of the CGUs to determine if any impairment loss or reversal of impairment is required.

The carrying values of property, plant and equipment, if they are determined to exceed their recoverable amounts, are written down to their recoverable amount and an impairment charge is recognized in the consolidated statements of profit or loss (see impairment section below). If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of its recoverable amount and the carrying value that would have remained had no impairment loss been recognized previously.

Impairment losses and reversals of previous impairments on property, plant and equipment are recognized in the Consolidated Statement of Profit or Loss as impairment expense (recovery) and are separately disclosed.

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

4.9 Intangible assets

Intangible assets acquired by way of an asset acquisition or business combination are recognized if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably upon initial recognition. Neo's intangible assets consist primarily of license agreements, customer relationships and trade name. Upon acquisition, customer relationships and license agreements are measured initially at fair value and are amortized on a straight-line basis over the period of the associated agreement or legal title: 5 to 10 years for license agreements and 10 to 15 years for customer relationships. Amortization has been included within depreciation and amortization expense in the consolidated statements of profit or loss. For any trade name with an indefinite life, its initial fair value recorded at acquisition will not be amortized, instead it is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Intangible assets are reviewed each reporting period to determine whether indicators of impairment or reversal of impairment exist. If an indicator of impairment or reversal of impairment exists, the Entity calculates the recoverable amount of the CGUs to determine if any impairment loss or reversal of impairment is required.

The carrying values of finite live intangibles, if they are determined to exceed their recoverable amounts, are written down to their recoverable amount and an impairment charge is recognized in the consolidated statements of profit or loss (see impairment section below). If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of its recoverable amount and the carrying value that would have remained had no impairment loss been recognized previously.

Impairment losses and reversals of previous impairments on intangible assets are recognized in the Consolidated Statement of Profit or Loss as impairment expense (recovery) and are separately disclosed.

4.10 Leases

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

To assess whether a contract conveys the right to control the use of an identified asset, Neo assesses whether:

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

Neo recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. Right-of-use assets are depreciated over their lease terms, ranging from 2 to 50 years for land and 2 to 10 years for building, machinery, vehicle, and office equipment.

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

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

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

Neo has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

4.11 Impairment

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

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

Corporate head office assets and expenses are proportionately allocated to CGUs or group of CGUs based on management's involvement in the business activities of each CGU or group of CGUs.

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

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

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

Non-financial assets with finite lives are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, non-financial assets that are not amortized are subject to an annual impairment assessment. Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate. The Company evaluates impairment losses for potential reversals, other than goodwill impairment, at each reporting period. See Notes 4.8 and 4.9 for further details.

4.12 Financial instruments

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

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

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

Financial instruments - classification and measurement

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

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

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward–looking expected credit losses ("**ECL**") model. The ECL model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The existing model aligns with the simplified approach under IFRS 9, which measures lifetime ECL and forward–looking information. Neo's allowance is determined by historical experiences, and considers factors including, the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers.

4.13 Inventories

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

4.14 Income taxes

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

4.14.1 Current tax

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

4.14.2 Deferred tax

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

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

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

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

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

4.15 Cash and cash equivalents

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

4.16 Employee future benefits

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

4.16.1 Defined benefit plan

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

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

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

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

4.16.2 Defined contribution benefits

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

4.17 Share-based compensation

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

4.17.1 Equity-settled share-based plans

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

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

4.17.2 Cash-settled share-based plans

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

4.17.3 Deferred share units plan

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

4.18 Significant management judgment in applying accounting policies

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

4.18.1 Income taxes

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

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on 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.

4.18.2 Impairment

An impairment loss is recognized for the amount by which an asset's or CGU's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use. To determine the 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. Similarly, when a reversal of an impairment loss previously recorded occurs (for property, plant and equipment and finite life intangible assets), the reversal is recognized with the carrying amount of the asset increased to the lesser of the revised estimate of its recoverable amount and the carrying value that would have remained had no impairment loss been recognized previously. Significant judgment is involved in determining if there is an indication that an asset or a CGU may be impaired or there is an indication that a previously recognized impairment loss for an asset or a CGU has reversed because of a change in the estimates used to determine the impairment loss.

4.18.3 Business combinations

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

4.18.4 Useful lives of depreciable assets

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

4.18.5 Inventories

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

4.18.6 Provisions

A provision is recognized if, as a result of a past event, Neo has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

4.18.7 Defined benefit pension liability

Management estimates the defined benefit pension liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of the defined benefit pension liability is based on estimated retirement ages, medical cost trends and mortality. Discount factors are determined based on matching the plan's projected cash flow with the independent actuaries' discount yield curve. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future estimates of Neo's defined benefit pension obligations.

4.18.8 Fair value of financial instruments

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

4.18.9 Share-based compensation

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

4.18.10 Measurement uncertainty

Neo continues to monitor the ongoing situation of the coronavirus ("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 consolidated 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.

4.19 Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grant will be received. Government grants are recognized in profit or loss on a systematic basis over the periods that Neo expenses the related costs for which the grants are intended to compensate.

NOTE 5 RECENT ACCOUNTING PRONOUNCEMENTS

Neo adopted the following accounting standards and amendments to accounting standards during the year ended December 31, 2021:

5.1 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 were effective for annual periods beginning on or after January 1, 2021 with earlier application permitted. The amendment was adopted by Neo on January 1, 2021. The amendment did not have a material impact on the consolidated financial statements.

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

On May 28, 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16). Subsequently, on March 31, 2021, the IASB extended the practical expedient by 12 months. The original version of the practical expedient under the 2020 amendment was (and remains) optional. However, the new amendment is, in effect, not optional because a lessee that chose to apply the practical expedient introduced by the 2020 amendment needs to consistently apply the extension to similar rent concessions. This means that lessees may need to reverse previous lease modification accounting if a rent concession was ineligible for the original version of the practical expedient under the 2020 amendments but becomes eligible as a result of the new amendment.

The new 2021 amendments were effective for annual periods beginning on or after April 1, 2021, with early adoption permitted. The amendment was adopted by Neo on April 1, 2021. 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:

5.3 Definition of Accounting Estimates (Amendments to IAS 8)

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

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

5.4 Disclosure initiative - Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

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

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

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

5.5 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.

5.6 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.

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

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

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

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

NOTE 6 ACCOUNTS RECEIVABLE

Neo uses the simplified provision matrix for calculating expected credit losses. Allowance is determined by historical experiences, and considers factors including, the aging of the balances, customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets and location of customers. Payments are typically due 30 to 90 days upon completion of the performance obligations for each contract, generally upon delivery.

Neo reviews all amounts periodically for indicators of impairment and where applicable the amounts impaired have been provided for in the loss allowance. The life-time expected credit loss for the year ended December 31, 2021 was nominal.

Neo's exposure to credit risks and impairment losses related to accounts receivable is disclosed in Note 28.

NOTE 7 INVENTORIES

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

	December 31, 2021	December 31, 2020
Raw materials	$ 73,023	$ 46,404
Work-in-progress	42,019	28,151
Finished goods	78,412	47,713
Supplies	7,500	8,599
Total	**$ 200,954**	**$ 130,867**

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

For the year ended December 31, 2021, a total of $376.9 million of inventories was included in cost of sales compared to $249.5 million for the year ended December 31, 2020. This included $4.6 million of provisions for inventories in the year ended December 31, 2021 and $4.7 million in the year ended December 31, 2020.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

	Land	Building & improvements	Machinery & Equipment	Right-of-use Assets	Office equipment	Construction in Progress (net of transfer)	Total
At January 1, 2021							
Cost	$ 2,550	$ 34,519	$ 71,647	$ 6,142	$ 7,105	$ 4,194	$126,157
Accumulated depreciation	—	(12,057)	(34,210)	(2,382)	(3,186)	—	(51,835)
Opening net book value at January 1, 2021	**$ 2,550**	**$ 22,462**	**$ 37,437**	**$ 3,760**	**$ 3,919**	**$ 4,194**	**$ 74,322**
Additions	—	61	1,215	1,202	184	7,699	10,361
Write-offs, net of cost and accumulated depreciation	—	—	(136)	(125)	(146)	(103)	(510)
Transfers	—	1,033	4,658	—	1,181	(6,872)	—
Currency translation adjustments	—	250	163	29	58	11	511
Impairments	—	—	(121)	—	—	—	(121)
Depreciation expense	—	(1,848)	(6,585)	(1,697)	(1,056)	—	(11,186)
Closing net book value at December 31, 2021	**$ 2,550**	**$ 21,958**	**$ 36,631**	**$ 3,169**	**$ 4,140**	**$ 4,929**	**$ 73,377**
Comprised of:							
Cost	$ 2,550	$ 36,059	$ 78,261	$ 6,755	$ 8,023	$ 4,929	$136,577
Accumulated depreciation	—	(14,101)	(41,630)	(3,586)	(3,883)	—	(63,200)

	Land	Building & improvements	Machinery & Equipment	Right-of-use Assets	Office equipment	Construction in Progress (net of transfer)	Total
At January 1, 2020							
Cost	$ 2,645	$ 38,952	$ 71,342	5,808	$ 5,401	$ 10,149	$134,297
Accumulated depreciation	—	(9,658)	(26,794)	(1,114)	(2,241)	—	(39,807)
Opening net book value at January 1, 2020	**$ 2,645**	**$ 29,294**	**$ 44,548**	**$ 4,694**	**$ 3,160**	**$ 10,149**	**$ 94,490**
Additions	—	9	1,192	584	490	5,592	7,867
Write-offs, net of cost and accumulated depreciation	—	(63)	(236)	(64)	(23)	(134)	(520)
Transfers (1)	(95)	4,060	2,857	—	942	(8,179)	(415)
Currency translation adjustments	—	646	976	64	171	50	1,907
Impairment (2)	—	(9,158)	(4,231)	—	—	(3,284)	(16,673)
Depreciation expense	—	(2,326)	(7,669)	(1,518)	(821)	—	(12,334)
Closing net book value at December 31, 2020	**$ 2,550**	**$ 22,462**	**$ 37,437**	**$ 3,760**	**$ 3,919**	**$ 4,194**	**$ 74,322**
Comprised of:							
Cost	$ 2,550	$ 34,519	$ 71,647	$ 6,142	$ 7,105	$ 4,194	$126,157
Accumulated depreciation	—	(12,057)	(34,210)	(2,382)	(3,186)	—	(51,835)

Notes:

(1) In December 2020, Neo Rare Metals (Utah), LLC ("**NRM Utah**") entered into discussion with C&S Thinning & Woods, Inc. ("**Buyer**"), a non-related party, to sell its property, plant and equipment to the Buyer. Management determined that all criteria for Assets Held for Sale under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations were met and therefore NRM Utah's $0.4 million property, plant and equipment was transferred from property, plant and equipment to Assets Held for Sale at December 31, 2020. An agreement to sell the property, plant and equipment to the Buyer was reached on February 8, 2021.

(2) The negative economic impacts of COVID-19 were determined to be an impairment indicator during the second quarter of 2020 for all Neo's CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and the Rare Metals segments. As a result of impairment testing, an impairment charge was determined for the C&O and the Rare Metals segments and no impairment was needed for the Magnequench segment. After fully impairing goodwill in the C&O and Rare Metals segments, Neo allocated a portion of the remaining impairment loss of $12.1 million and $4.6 million to property, plant, and equipment in the C&O and Rare Metals segments, respectively.

NOTE 9 INTANGIBLE ASSETS

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

	Customer Relationships	License Agreements and Patents	Tradename	Total
At January 1, 2021				
Cost	$ 61,692	$ 4,430	$ 6,000	$ 72,122
Accumulated amortization	(17,590)	(879)	—	(18,469)
Opening net book value at January 1, 2021	$ 44,102	$ 3,551	$ 6,000	$ 53,653
Additions	—	305	—	305
Currency translation adjustments	633	49	—	682
Amortization expense	(4,187)	(492)	—	(4,679)
Closing net book value at December 31, 2021	**$ 40,548**	**$ 3,413**	**$ 6,000**	**$ 49,961**
Comprised of:				
Cost	$ 62,620	$ 4,790	$ 6,000	$ 73,410
Accumulated amortization	(22,072)	(1,377)	—	(23,449)

	Customer Relationships	License agreements	Tradename	Total
At January 1, 2020				
Cost	$ 71,328	$ 4,031	$ 6,000	$ 81,359
Accumulated amortization	(15,450)	(434)	—	(15,884)
Opening net book value at January 1, 2020	$ 55,878	$ 3,597	$ 6,000	$ 65,475
Additions	—	331	—	331
Disposals	—	(101)	—	(101)
Impairments	(9,460)	—	—	(9,460)
Currency translation adjustments	2,106	148	—	2,254
Amortization expense	(4,422)	(424)	—	(4,846)
Closing net book value at December 31, 2020	**$ 44,102**	**$ 3,551**	**$ 6,000**	**$ 53,653**
Comprised of:				
Cost	$ 61,692	$ 4,430	$ 6,000	$ 72,122
Accumulated amortization	(17,590)	(879)	—	(18,469)

NOTE 10 GOODWILL

	December 31, 2021	December 31, 2020
Opening balance as at January 1	$ 68,967	$ 98,841
Impairment	—	(32,951)
Currency translation adjustments	1,115	3,077
Ending balance	**$ 70,082**	**$ 68,967**

On December 31, 2021, Neo performed goodwill impairment test for its Magnequench segment in accordance with its policy and based on conditions at that date. The recoverable amount for the group of CGUs was determined based on fair value less cost to sell for the Magnequench segment. The calculations used a detailed 2021 five-year cash flow projection based on financial forecasts prepared by management. Cash flows beyond the five-year period were extrapolated using the estimated annual average growth rates stated below. The forecasted cash flows were then discounted to calculate the present value of the cash flows expected to be derived from the group of CGUs. This approach involves estimates and assumptions about revenue growth rates, operating profit margins and discount rates. The fair value measurement was categorized as a Level 3 fair value measurement based on significant unobservable inputs in the valuation technique used.

1. **The annual average revenue growth rate** is determined based on management's past experience in the industry and cash flow forecasts and ranged from 3.0%-7.0% based on Magnequench's five-year financial plan. The cash flow forecasts at the end of the planning period were extrapolated using an estimated long-term growth rate of 4.0%.

2. **The discount rate** is determined in order to calculate the present value of the projected cash flows of the group of CGUs. The pre-tax discount rate was 16.4% for Magnequench's group of CGUs at December 31, 2021.

The following table shows the goodwill at the Magnequench segment:

	December 31, 2021	December 31, 2020
Goodwill	**$ 70,082**	**$ 68,967**

The following table shows the intangible assets with an indefinite useful life at the Magnequench segment:

	December 31, 2021	December 31, 2020
Tradename	$ 6,000	$ 6,000

As a result of the annual goodwill and indefinite life intangible asset impairment test performed at December 31, 2021, it was determined that the recoverable amount exceeded the carrying amount of the Magnequench group of CGUs and therefore no impairment existed in the Magnequench group of CGUs at December 31, 2021.

In the first half of 2020, the outbreak of COVID-19 caused significant deterioration in economic conditions and negatively impacted the financial results of Neo and many other listed and non-listed companies globally. This was considered to be an impairment indicator for all groups of CGUs as of June 30, 2020, requiring an impairment test to be performed in accordance with IAS 36 Impairment of Assets. The recoverable amounts for the groups of CGUs was determined based on fair value less cost to sell for the Magnequench segment and value in use for the C&O and the Rare Metals segments. The calculations used a detailed 2020 five-year cash flow projection based on financial forecasts approved by management. Cash flows beyond the five-year period are extrapolated using the estimated annual average growth rates stated below. The forecasted cash flows were then discounted to calculate the present value of the cash flows expected to be derived from each group of CGUs. This approach involves estimates and assumptions about revenue growth rates, operating profit margins and discount rates. When a fair value less cost of disposal calculation was used, the fair value measurement was categorized as a Level 3 fair value measurement based on significant unobservable inputs in the valuation technique used.

1. **The annual average revenue growth rate** is determined based on management's past experience in the industry and cash flow forecasts, and ranged from 0.2% to 4.3% based on Neo's five-year financial plan. The cash flow forecasts at the end of the planning period were extrapolated using estimated long-term growth rates in the range of 1.4% to 4.0%.

2. **The discount rate** is determined in order to calculate the present value of the projected cash flows of the groups of CGUs. The pre-tax discount rates ranged from 12.4% to 15.5% for Neo's groups of CGUs at June 30, 2020 and 12.5% to 16.9% at December 31, 2019.

For the purpose of impairment testing, goodwill was allocated as follows:

	December 31, 2020	June 30, 2020
Magnequench	$ 68,967	$ 65,334
Chemicals & Oxides	—	16,668
Rare Metals	—	16,283
Total goodwill allocated	**$ 68,967**	**$ 98,285**

Intangible assets with an indefinite useful life are allocated to the following groups of CGUs for the purpose of impairment testing:

	December 31, 2020	June 30, 2020
Magnequench	$ 6,000	$ 6,000

As a result of impairment testing performed as at June 30, 2020, the recoverable amount exceeded the carrying amount of the Magnequench segment. For the C&O and the Rare Metals segments, the carrying amount exceeded the recoverable amount by $35.1 million and $24.0 million respectively. As a result, Neo recorded an impairment charge for the year ended December 31, 2020 as follows:

	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**

NOTE 11 INVESTMENTS

11.1 Investment in Associates

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

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

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

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

Aggregate financial information of these equity accounted associates as at and for the year ended December 31, 2021 and December 31, 2020 is provided below.

For the year ended December 31, 2021:

	TMT	**Keli**	**GQD**	**Total**
Total revenue	$ 10,176	$ 536,772	$ 74,231	$ 621,179
Share of revenue in associates	3,358	134,193	14,846	152,397
Net income	1,331	10,346	3,955	15,632
Share of income in associates	439	2,587	791	3,817

For the year ended December 31, 2020:

	TMT	**Keli**	**GQD**	**Total**
Total revenue	$ 4,928	$ 285,084	$ 52,916	$ 342,928
Share of revenue in associates	1,626	71,271	10,583	83,480
Net income	302	2,718	1,384	4,404
Share of income in associates	100	683	277	1,060

As at December 31, 2021:

	TMT	**Keli**	**GQD**	**Total**
Current assets	$ 7,110	$ 180,118	$ 17,048	$ 204,276
Non-current assets	$ 1,350	$ 6,366	$ 1,401	$ 9,117
Total assets of associates	**$ 8,460**	**$ 186,484**	**$ 18,449**	**$ 213,393**
Current liabilities	$ 1,295	$ 141,377	$ 10,398	$ 153,070
Total liabilities of associates	**$ 1,295**	**$ 141,377**	**$ 10,398**	**$ 153,070**

As at December 31, 2020:

	TMT		Keli		GQD		Total	
Current assets	$	6,034	$	130,380	$	18,463	$	154,877
Non-current assets	$	1,387	$	6,773	$	1,362	$	9,522
Total assets of associates	**$**	**7,421**	**$**	**137,153**	**$**	**19,825**	**$**	**164,399**
Current liabilities	$	1,455	$	103,627	$	15,158	$	120,240
Total liabilities of associates	**$**	**1,455**	**$**	**103,627**	**$**	**15,158**	**$**	**120,240**

Investments accounted for using the equity method are as follows:

	TMT		Keli		GQD		Total	
Carrying value at January 1, 2021	$	1,966	$	7,173	$	906	$	10,045
Share of results in associates		439		2,587		791		3,817
Dividends received from associates		(103)		—		—		(103)
Carrying value at December 31, 2021	**$**	**2,302**	**$**	**9,760**	**$**	**1,697**	**$**	**13,759**
Carrying value at January 1, 2020	$	1,866	$	6,490	$	629	$	8,985
Share of results in associates		100		683		277		1,060
Carrying value at December 31, 2020	**$**	**1,966**	**$**	**7,173**	**$**	**906**	**$**	**10,045**

NOTE 12 CATEGORIES OF FINANCIAL INSTRUMENTS

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

<u>Financial Assets</u>	December 31, 2021		December 31, 2020	
Fair value through profit or loss				
Equity securities [1]	$	2,056	$	—
Measured at amortized cost [2]				
Cash and cash equivalents	$	89,037	$	72,224
Restricted cash		1,283		4,219
Accounts receivable		65,209		51,851
	$	155,529	$	128,294
Total financial assets	**$**	**157,585**	**$**	**128,294**

Financial Liabilities	December 31, 2021	December 31, 2020
Fair value through profit or loss		
Put option issued to non-controlling interest of Buss & Buss (derivative liability)	$ 14,704	$ 9,428
Measured at amortized cost (2)		
Current:		
Bank advances and other short-term debt	6,502	2,428
Accounts payable and other accrued charges	94,201	79,106
	$ 100,703	$ 81,534
Total financial liabilities	**$ 115,407**	**$ 90,962**

Notes:

(1) On June 30, 2021, Neo purchased equity securities in the amount of $0.8 million. The fair value of these equity securities in the period ended December 31, 2021 increased by $1.3 million ($1.4 million increase in fair value net of foreign exchange loss of $0.1 million).

(2) Carrying value of financial instruments measured at amortized cost is a reasonable approximation of their fair value.

12.1 Derivative liability

As at December 31, 2021, Neo's derivative liability is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss Spezialmetalle GmbH ("**Buss & Buss**"). The Buss & Buss put option is related to a share purchase agreement ("**SPA**") between NMT Holdings GmbH, a German subsidiary of Neo, and the shareholders of Buss & Buss entered into on May 27, 2010. The SPA includes a call and a put option on shares of the remaining shareholder or his legal successors. If the call option is exercised by Neo, a premium is added to the consideration to purchase the underlying shares in Buss & Buss. If the put option is exercised by the non-controlling interest, a discount will reduce the cost basis of the securities sold to Neo. Although the final amount of the put option is not known, the initial fair value of this obligation was determined by a third-party valuator based on information available at that time. The put option liability is subsequently re-measured at each reporting period based on 90% of the fair value and the change in the put option liability is recorded in the consolidated statements of profit or loss.

For the year ended December 31, 2021, the change in the fair value of the derivative liability of $5.3 million (due to changes in fair value assumptions) was recorded as finance expense. For the year ended December 31, 2020, the change in the fair value of the derivative liability of $2.4 million (comprised of an increase of $0.6 million due to changes in fair value assumptions and a decrease of $3.0 million relating to the dividend paid) was recorded as finance income.

No dividends were declared by Buss & Buss during the year ended December 31, 2021.

For the year ended December 31, 2020, Buss & Buss declared and paid $6.7 million (Euro 6.0 million) of dividends to its shareholders (NMT Holdings GmbH and a non-controlling interest). In accordance with IAS 32, Neo has elected to record the dividend paid to its non-controlling interest of $3.3 million as a finance expense for the year ended December 31, 2020.

12.2 Financial assets and liabilities measured at fair value

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

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

The level in which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the consolidated statement of financial position as at December 31, 2021, are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3
Financial Assets:			
Equity securities	$ 2,056	$ —	$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	$ —	$ —	$ 14,704

Neo's equity securities, classified in Level 1, is measured at FVTPL based on the stock price of the securities that is publicly available. For the year ended December 31, 2021, the change in the fair value of the equity securities of $1.4 million was recorded as finance income.

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, 2021.

12.3 Bank advances, short-term loan and debt

12.3.1 Chinese debt facility

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

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

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

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

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

As at December 31, 2021, $6.3 million (RMB 40.0 million) was drawn on the Facilities and Neo and the relevant borrowing parties are in compliance with all covenants contained in the Facilities agreement.

12.3.2 German debt facility

As at December 31, 2021, Buss & Buss has a $6.2 million (€5.5 million) revolving line of credit which can be drawn either in Euros or U.S. dollars. The bank is entitled to revise the interest rate if the three-month Euro Interbank Offered Rate ("**Euribor**") average rate changes by more than 0.25%, up to a maximum of 0.1% plus the actual change in average rate.

The security for the revolving line of credit includes a directly enforceable guarantee of the non-controlling shareholder of Buss & Buss amounting to $0.28 million (€0.25 million) as well as a lien amounting to $0.57 million (€0.50 million) on certain property, plant and equipment. The remainder of the revolving line of credit is secured by certain working capital of Buss & Buss.

As at December 31, 2021, $0.23 million (€0.20 million) was drawn from the revolving line of credit.

There are no financial covenants which need to be met.

12.3.3 Estonia debt facility

On December 23, 2021, Silmet entered into a $7.9 million (€7.0 million) credit facility with OP Corporate Bank plc Eesti filiaal ("**OP Bank**") to finance working capital and other investments at Silmet. On December 29, 2021, part of the credit facility was assigned to a bank guarantee related to the disposal of naturally occurring radioactive materials ("**NORM**") residue, thus temporarily reducing the credit facility by $2.6 million (€2.3 million) to a net $5.3 million (€4.7 million) credit facility which can be drawn in Euros and accrues interest at a rate equal to Euribor plus 1.95% per annum.

As part of the facility agreement, Silmet has pledged certain security as collateral in favour of OP Bank, including a combined mortgage over certain real estate properties for $10.2 million (€9.0 million), and certain other fixed assets for $5.7 million (€5.0 million).

The facility contains a number of financial covenants, which include a debt service coverage ratio, an equity ratio, and that a maximum net debt to EBITDA not be exceeded – as such terms are defined in the facility agreement.

As at December 31, 2021, no amount was drawn from the credit facility, and therefore no financial covenant test was applicable at period end.

NOTE 13 LEASES

13.1 Right-of-use assets

Neo leases vehicles, machinery, land and buildings for its office and research and development facilities. The leases of vehicles, machinery and office spaces typically run for a period of 2 to 5 years. The leases of land could range for a period of 1 to 50 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

Neo also leases office equipment with contract terms of 1 to 2 years. These leases are short-term and/or leases of low-value items. Neo has elected not to recognize right-of-use assets and leases liabilities for these leases.

Information about Neo's right-of-use assets is presented in Note 8.

13.2 Lease liabilities

The following table shows the contractual undiscounted cash flows of the leases based on their maturity date:

Less than one year	1,680
One to five years	1,365
More than five years	47
Total undiscounted lease liabilities at December 31, 2021	**$ 3,092**

13.3 Amounts recognized in profit or loss

The following table shows the amount of lease related expenses recognized in the statement of profit or loss for the year ended December 31, 2021:

Interest on lease liabilities	166
Expenses relating to short-term leases	20
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	5

NOTE 14 OPERATING SEGMENTS

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

A comparative breakdown of business segment information is as follows:

For the year ended December 31, 2021:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 263,753	$ 191,894	$ 83,604	$ —	$ 539,251	$ —	$ 539,251
Inter-segment revenue	—	20,817	—	—	20,817	(20,817)	—
Total revenue	**$ 263,753**	**$ 212,711**	**$ 83,604**	**$ —**	**$ 560,068**	**$ (20,817)**	**$ 539,251**
Net Income (loss)	**$ 32,460**	**$ 27,865**	**$ (1,800)**	**$ (20,098)**	**$ 38,427**	**$ (2,384)**	**$ 36,043**
Finance cost (income), net	(223)	(43)	5,534	(1,325)	3,943	—	3,943
Income tax expense (recovery)	8,147	(1,821)	3,218	36	9,580	—	9,580
Depreciation and amortization included in costs of sales	3,373	2,602	2,201	—	8,176	—	8,176
Depreciation and amortization included in operating expenses	5,946	1,144	262	337	7,689	—	7,689
EBITDA	**$ 49,703**	**$ 29,747**	**$ 9,415**	**$ (21,050)**	**$ 67,815**	**$ (2,384)**	**$ 65,431**
Reconciliation to Adjusted EBITDA:							
EBITDA	$ 49,703	$ 29,747	$ 9,415	$ (21,050)	$ 67,815	$ (2,384)	$ 65,431
Other (income) expense [1]	(371)	9,767	354	—	9,750	—	9,750
Foreign exchange loss (gain)	2,217	1,623	(728)	1,276	4,388	—	4,388
Equity income of associates	(3,817)	—	—	—	(3,817)	—	(3,817)
Share-based compensation [2]	277	254	113	3,882	4,526	—	4,526
Impairment of assets [3]	—	121	—	—	121	—	121
Other costs [4]	—	—	—	1,516	1,516	—	1,516
Adjusted EBITDA [5]	**$ 48,009**	**$ 41,512**	**$ 9,154**	**$ (14,376)**	**$ 84,299**	**$ (2,384)**	**$ 81,915**
Capital expenditures	$ 4,784	$ 3,297	$ 1,383	$ —	$ 9,464	$ —	$ 9,464

Notes:

(1) Represents other expenses resulting from non-operational related activities, including provisions for estimated damages for outstanding legal claims related to historic volumes, costs for disposal of historically generated NORM and fair value remeasurement of marketable securities. These costs and recoveries are not indicative of Neo's ongoing activities.

(2) Represents share-based compensation expense in respect of the Plan (Note 20) and the LTIP. There was no additional value-based compensation expense, in respect of the Legacy Plan (Note 20), for the year ended December 31, 2021.

(3) Represents impairment in property, plant and equipment.

(4) Represents primarily legal, professional advisory fees and other transaction costs incurred 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) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.

For the year ended December 31, 2020:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 152,966	$ 134,038	$ 59,688	$ —	$ 346,692	$ —	$ 346,692
Inter-segment revenue	—	9,284	—	—	9,284	(9,284)	—
Total revenue	**$ 152,966**	**$ 143,322**	**$ 59,688**	**$ —**	**$ 355,976**	**$ (9,284)**	**$ 346,692**
Net Income (loss)	**$ 16,437**	**$ (25,039)**	**$ (32,991)**	**$ (18,082)**	**$ (59,675)**	**$ (414)**	**$ (60,089)**
Finance cost (income), net	30	(141)	1,096	(107)	878	—	878
Income tax expense	4,318	(2,256)	(391)	(28)	1,643	—	1,643
Depreciation and amortization included in costs of sales	3,181	3,042	3,207	—	9,430	—	9,430
Depreciation and amortization included in operating expenses	5,760	1,260	394	336	7,750	—	7,750
EBITDA	**$ 29,726**	**$ (23,134)**	**$ (28,685)**	**$ (17,881)**	**$ (39,974)**	**$ (414)**	**$ (40,388)**
Reconciliation to Adjusted EBITDA:							
EBITDA	$ 29,726	$ (23,134)	$ (28,685)	$ (17,881)	$ (39,974)	$ (414)	$ (40,388)
Other expense	(138)	676	1,729	51	2,318	—	2,318
Foreign exchange loss (gain)	440	255	551	(595)	651	—	651
Equity loss of associates	(1,060)	—	—	—	(1,060)	—	(1,060)
Share and value-based compensation (1)	960	1,089	196	1,999	4,244	—	4,244
Impairment of assets (2)	—	35,064	24,020	—	59,084	—	59,084
Other costs (recoveries) (3)	—	—	—	4,025	4,025	—	4,025
Adjusted EBITDA (2)	**$ 29,928**	**$ 13,950**	**$ (2,189)**	**$ (12,401)**	**$ 29,288**	**$ (414)**	**$ 28,874**
Capital expenditures	$ 5,148	$ 1,526	$ 940	$ —	$ 7,614	$ —	$ 7,614

Notes:

(1) Represents share and value-based compensation expense in respect of the Legacy Plan (Note 20) and a long-term value bonus plan computed in the same manner as the share-based plan and is settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value-based compensation recovery of $2.5 million was included in selling, general, and administration expense for the year ended December 31, 2020.

(2) The negative economic impacts of COVID-19 were determined to be an impairment indicator as of June 30, 2020 for all Neo's CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and the 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.

(3) Represents primarily legal, professional advisory fees and other transaction costs incurred 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.

(4) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.

As at December 31, 2021:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
Total assets	$ 308,306	$ 166,265	$ 79,621	$ 42,610	$ 596,802	$ (2,720)	$ 594,082
Investment in equity method associates	13,759	—	—	—	13,759	—	13,759
Total liabilities	(65,659)	(50,941)	(30,104)	(16,862)	(163,566)	—	(163,566)

As at December 31, 2020:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
Total assets	$ 272,151	$ 132,998	$ 75,106	$ 6,624	$ 486,879	$ (337)	$ 486,542
Investment in equity method associates	10,045	—	—	—	10,045	—	10,045
Total liabilities	(52,863)	(34,819)	(23,804)	(11,571)	(123,057)	—	(123,057)

The geographic distribution of Neo's revenue based on the location of its customers for the year ended December 31, 2021 and 2020 are summarized as follows:

Revenue	Year Ended December 31, 2021	Year Ended December 31, 2020
Asia:		
China	$ 198,379	$ 121,517
Japan	116,180	68,435
Thailand	28,794	12,918
South Korea	4,698	5,804
North America	69,250	48,652
Europe	109,264	78,896
Other	12,686	10,470
Total	**$ 539,251**	**$ 346,692**

Revenue from one significant customer accounted for $90.3 million and $50.7 million of Neo's total revenue for the year ended December 31, 2021 and December 31, 2020, respectively. Neo defines significant customers as those that generates 10% or more of consolidated revenue.

The geographic distribution of Neo's non-current assets (excluding deferred tax assets, goodwill and intangible assets) based on the location of the assets is summarized as follows:

	December 31, 2021	December 31, 2020
Asia:		
China	$ 45,817	$ 44,997
Singapore	2,174	2,680
Thailand	5,971	6,202
North America	16,123	12,112
Europe	15,364	15,687
Other	4,592	3,553
Total	**$ 90,041**	**$ 85,231**

NOTE 15 SUPPLEMENTAL CASH FLOW INFORMATION

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

	Year Ended December 31,	
	2021	2020
Decrease (increase) in assets:		
Accounts receivable	$ (13,328)	$ (6,613)
Inventories	(69,408)	(15,542)
Other assets	(5,237)	512
Increase (decrease) in liabilities:		
Accounts payable and other accrued charges	16,772	19,246
Other liabilities	464	585
Total net change	**$ (70,737)**	**$ (1,812)**

NOTE 16 COMMITMENTS AND CONTINGENCIES

16.1 Commitments

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

16.2 Legal contingencies

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

There are many factors that make it difficult to estimate the impact of a particular lawsuit on Neo, including, 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 judgments in these cases are final. Neo C&O (Europe) was ordered to provide information related to the calculation of damages, but as of yet there has been no determination of damages in any of the German infringement lawsuits.

Neo C&O (Europe) challenged the validity of patents 984, 846, 274 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 stayed Rhodia's case alleging infringement of 682, pending the outcome of Neo's action before the German Federal Patent Court to invalidate 682. In September of 2021 the Court of Appeal remanded the case back to the Düsseldorf Regional Court to reconsider its order staying the 682 infringement proceeding. The Düsseldorf Regional Court has not yet ruled on Neo's motion for stay following the remand. The 907 action was initiated at the beginning of July 2020, but Rhodia dismissed the 907 action in March 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) appealed the decision on infringement. In January 2019, the Federal Patent Court in Munich revoked the German designation of patent 338. Rhodia appealed this ruling, and on April 6, 2021, the German Federal Supreme Court reversed the judgment of the Federal Patent Court and upheld the validity of patent 338, subject to certain limitations in its scope. In December of 2021, the Higher Regional Court of Karlsruhe dismissed

Neo's appeal in the infringement case and affirmed the Regional Court of Mannheim's ruling that Neo had infringed patent 338 in Germany. Neo intends to seek leave to appeal this judgment to the German Federal Supreme Court.

In April 2018, the United Kingdom ("**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 took place in January and February 2022. The Court has not yet issued a decision following the trial on damages.

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. 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. 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. However, in May of 2021 DKKK and Rhodia Operations withdrew their suit alleging infringement of Claim 4.

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 of China affirmed the judgment of the Beijing IP Court, invalidating all claims associated with patent ZL 97195463.1. This final judgment precludes further litigation for alleged infringement of ZL 97195463.1.

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

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

In November 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
European patent 0863846 B1	Germany	$8.7 million
European patent 0735984 B1	Germany	
European patent 0605274 B1	Germany	
Chinese patent ZL 96196505.3	China	$7.1 million
European Patent EP 3009403	Estonia	$0.1 million
European & UK patents 1435338 B1	Germany	$43.0 million
European & UK patents 1435338 B1	UK	Not specified
European patent 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified

Management has made an assessment, based on its interpretation of the claims as to the quantum of the appropriate provision for certain claims, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Such a provision is based on management's best estimate, as damages are uncertain and are subject to judicial determination. Management's assessment, based on its interpretation of the claims, the limited facts available at this time and independent legal advice, is that for all other claims it is not probable that an outflow of resources will be required in settling these claims and no provision has been made. Future developments in these cases could cause management to change its assessment.

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

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

NOTE 17 SHARE CAPITAL

	December 31, 2021	December 31, 2020
Number of common shares authorized for issue:	Unlimited	Unlimited
Number of preference shares authorized for issue:	Unlimited	Unlimited
Total common shares issued and fully paid	40,668,902	37,460,390
Total treasury shares	—	—

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

17.1 Common Shares

Neo's authorized capital consists of an unlimited number of Common Shares without par value. The holders of the Common Shares are entitled to receive notice of and to attend and vote at all meetings of the shareholders of Neo and each Common Share confers the right to one vote in person or by proxy at all meetings of the shareholders of

Neo. The holders of the Common Shares, subject to the prior rights, if any, of any other class of shares of Neo, are entitled to receive such dividends in any financial year as the Board may by resolution determine. In the event of the liquidation, dissolution or winding-up of Neo, whether voluntary or involuntary, the holders of the Common Shares are entitled to receive, subject to the prior rights, if any, of the holders of any other class of shares of Neo, the remaining property and assets of Neo.

12.2 Preferred Shares

The Board has the authority, without action by Neo's shareholders, to designate and issue an unlimited number of Preferred Shares in one or more series and to designate the rights, preferences and privileges of each series. The Preferred Shares of each series will rank on par with the Preferred Shares of every other series and, if so designated by the Board, will be entitled to preference over the Common Shares with respect to payment of dividends and distribution of any assets in the event of Neo's liquidation, dissolution or winding-up. Where Neo does not pay cumulative dividends in full with respect to a series of its Preferred Shares, the shares of all series of the Preferred Shares will participate rateably with respect to the accumulated dividends in accordance with the amounts that would be payable on those shares if all the accumulated dividends were paid in full.

The issuance of Preferred Shares and the terms selected by the Board could decrease the amount of earnings and assets available for distribution to holders of the Common Shares and/or adversely affect the rights and powers, including the voting rights, of the holders of the Common Shares without any further vote or action by the shareholders. Any series of Preferred Shares issued by the Board will have priority over the Common Shares in terms of dividend or liquidation rights or both. The issuance of Preferred Shares, or the issuance of rights to purchase Preferred Shares, could make it more difficult for a third party to acquire a majority of Neo's outstanding voting shares and thereby have the effect of delaying, deferring or preventing a change of control of Neo or an unsolicited acquisition proposal, and could make the removal of management more difficult. Additionally, the issuance of Preferred Shares may have the effect of decreasing the market price of the Common Shares.

Neo has no current intention to issue any Preferred Shares.

Normal Course Issuer Bid

On June 1, 2021, Neo announced that the TSX had accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**Bid**") for up to 2,111,758 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 June 3, 2022. A previously announced normal course issuer bid expired on May 18, 2021.

For the year ended December 31, 2021, Neo repurchased and canceled 3,400 shares for a nominal aggregate amount. For the year ended December 31, 2020, Neo repurchased and canceled 396,936 shares under a previously announced normal course issuer bid for a total consideration of $3.1 million.

NOTE 18 EARNINGS PER SHARE

18.1 Weighted-average number of common shares - basic

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

	Year Ended December 31,	
	2021	2020
Common shares issued at beginning of period	37,460,390	37,798,956
Weighted average impact of:		
Issuance of common shares	683,058	22,703
Repurchase and cancellation of common shares under Normal Course Issuer Bid	(3,338)	(191,696)
Weighted average number of common shares for the period - basic	**38,140,110**	**37,629,963**

18.2 Weighted average number of common shares - diluted

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

	Year Ended December 31,	
	2021	2020
Weighted average number of common shares - basic	38,140,110	37,629,963
Dilutive effect of Stock Units	403,238	—
Weighted average number of common shares - diluted	**38,543,348**	**37,629,963**

18.3 Earnings per share

The calculation of basic and diluted earnings per share was based on net income attributable to equity holders of Neo for the year ended December 31, 2021, and December 31, 2020.

	Year Ended December 31,	
	2021	2020
Net income (loss) attributable to equity holders of Neo Performance Materials Inc. - basic and diluted	$ 35,177	$ (57,931)

	Year Ended December 31,	
	2021	2020
Earnings (loss) per share - basic	$ 0.92	$ (1.54)
Earnings (loss) per share - diluted	$ 0.91	$ (1.54)

For the year ended December 31, 2021, 186,550 (2020: 1,186,541) stock options, were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

For the year ended December 31, 2021, 47,270 (2020: 1,445) equity-settled RSUs, were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

For the year ended December 31, 2021, 35,447 (2020: 703,879) equity-settled PSUs, were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

NOTE 19 INCOME TAXES

19.1 Income Tax Expense

	Year Ended December 31, 2021	Year Ended December 31, 2020
Current tax expense (benefit)		
Current year	$ 14,220	$ 6,300
Adjustments in respect of prior years	(117)	(72)
Total current tax expense	14,103	6,228
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	261	(4,377)
Amount of benefit arising from previously unrecognized tax loss, used to reduce current tax expense	(3,071)	(208)
Amount of benefit arising from previously unrecognized deductible temporary differences	(1,713)	—
Total income tax expense	**$ 9,580**	**$ 1,643**

19.2 Reconciliation of effective tax rate

	Year Ended December 31, 2021	Year Ended December 31, 2020
Income (Loss) from operations before taxes and equity income of associates	41,806	(59,506)
Income tax expense (benefit) at Neo's statutory income tax rate of 26.5% (2020 - 26.5%)	11,079	(15,769)
Impact of countries with different tax rates	(4,283)	5,858
Losses and deductible temporary differences for which no deferred tax asset has been recognized	(1,380)	4,234
Current tax benefit with respect to prior years	(117)	(72)
Foreign withholding taxes	2,197	1,799
Deferred tax expense (benefit) on foreign exchange translation of non-monetary items	841	(805)
Expenses not deductible for tax purposes	1,404	6,449
Other	(161)	(51)
Total income tax expense	**$ 9,580**	**$ 1,643**

For the year ended December 31, 2020, Neo recognized an impairment of goodwill of $33.0 million, which was not deductible for tax purposes. In addition, Neo recognized an $8.5 million impairment of intangible assets and property, plant and equipment in a jurisdiction for which there is no tax benefit. The above two items increased the loss from operations without any corresponding tax benefit.

19.3 Unrecognized deferred tax assets

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

	Year Ended December 31,	
	2021	**2020**
Deductible temporary differences	$ 30,051	$ 33,755
Tax losses	125,417	167,778
	$ 155,468	**$ 201,533**

Tax losses for which no deferred tax asset was recognized that will not expire totaled $5.7 million while $52.1 million expire between 2022 and 2025 and $67.6 million expire between 2026 and 2041.

19.4 Unrecognized deferred tax liabilities

At December 31, 2021 taxable temporary differences of $51.2 million related to the investment in subsidiaries were not recognized because Neo controls the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

19.5 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Year Ended December 31,	
	2021	**2020**
Deferred Tax Assets		
Inventory	$ 3,670	$ 2,302
Property, plant and equipment and intangible assets	1,120	660
Accrued charges	988	31
Deferred compensation and retirement benefits	195	368
Provisions	3,598	—
Other	918	1,797
Deferred Tax Liabilities		
Inventory	—	(394)
Property, plant and equipment and intangible assets	(10,109)	(10,190)
Foreign subsidiary earnings and withholding tax	(6,470)	(5,230)
Other	(638)	(274)
Deferred tax liabilities - net	**$ (6,728)**	**$ (10,930)**

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

	Year Ended December 31,	
	2021	2020
Deferred tax assets	$ 6,638	$ 3,040
Deferred tax liabilities	(13,366)	(13,970)
Deferred tax liabilities - net	**$ (6,728)**	**$ (10,930)**

Movement in net deferred tax liabilities:

	Year Ended December 31,	
	2021	2020
Balance at the beginning of the period	$ (10,930)	$ (15,089)
Recognized in profit or loss	4,523	4,585
Other	(321)	(426)
Balance at the end of the period	**(6,728)**	**(10,930)**

NOTE 20 SHARE-BASED COMPENSATION

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 Holdings Ltd. ("**Neo Cayman**") and a subsequent public offering of common shares of Neo. Neo Cayman's management incentive plan was assigned to Neo upon the completion of the Arrangement. This plan ("**Legacy Plan**") was comprised of Stock Options, Restricted Share Units ("**RSUs**"), Performance Stock Units ("**PSUs**") and Special Performance Stock Units ("**Special PSUs**") (collectively referred to as "**Stock Units**"). These Stock Units were granted under the Legacy Plan to directors, officers, and employees, and provide the right for these individuals to receive common shares of Neo or, in the case of the options, to purchase common shares of Neo.

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. 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, Deferred Share Units ("**DSUs**") under the Directors Share Unit Plan, and RSUs, PSUs and Additional PSUs under the LTIP.

The Special PSUs under the Legacy Plan and Additional PSUs under the LTIP, had all been canceled as at December 31, 2018 as the liquidity event condition was not met.

On May 28, 2021, an omnibus long-term incentive plan (the "**Plan**") was established. The Plan was formally approved at the Annual General and Special meeting of Neo on June 29, 2021. No future awards will be granted under the Legacy Plan or LTIP. On September 1, 2021, Neo granted 21,180 DSUs, 186,550 Options, 47,270 equity-settled RSUs, 118,155 equity-settled PSUs, 68,225 cash-settled RSUs, and 68,225 cash-settled PSUs under the Plan.

Equity-settled share-based compensation	Options	Weighted-average exercise price - Options	RSUs	PSUs
Outstanding, January 1, 2021	1,186,541	$ 9.50	1,445	635,812
Granted	186,550	$ 15.34	47,270	118,155
Exercised	(355,018)	$ 9.37	(1,445)	(423,875)
Expired	—	$ —	—	(211,937)
Outstanding, December 31, 2021	1,018,073	$ 10.60	47,270	118,155
Exercisable, December 31, 2021	790,746	$ 9.65	—	—
Weighted average exercise price, exercised during the year ended December 31, 2021	$ 9.37			
Weighted average remaining contractual life, December 31, 2021	5.03 years		2.24 years	2.00 years

Cash-settled share-based compensation	RSUs	PSUs	DSUs
Outstanding, January 1, 2021	148,841	170,327	107,028
Granted	68,225	68,225	21,180
Exercised	(44,291)	(63,443)	—
Expired	—	(6,667)	—
Outstanding, December 31, 2021	172,775	168,442	128,208
Weighted average remaining contractual life, December 31, 2021	1.85 years	1.72 years	—

During the year ended December 31, 2021, 355,018 stock options have been exercised under the terms of the Legacy Plan. No other stock units were issued or vested under the terms of the Legacy Plan.

During the year ended December 31, 2021, under the terms of the Legacy Plan and upon Oaktree owning less than 51% of the total outstanding common shares of Neo, 423,875 equity-settled PSUs, 13,335 cash-settled PSUs, 1,445 equity-settled RSUs, and 3,516 cash-settled RSUs have vested, and 211,937 equity-settled PSUs and 6,667 cash-settled PSUs were forfeited. After accounting for the effect of withholding taxes on the vested awards in the amount of $3.0 million, 258,894 common shares of Neo were issued on the equity-settled PSUs and RSUs which vested in the first quarter of 2021.

The following table summarizes the inputs used in the calculation of the grant date fair values for each of the stock units issued under the Plan during 2021 and the LTIP during 2020:

	Options	RSUs	PSUs	DSUs
Key assumptions used for 2021 grants:				
Weighted average grate date fair value (per unit)	$ 5.66	$ 14.96	$ 14.96	$ 15.34
Dividend yield	2.1 %	— %	— %	— %
Expected volatility	45.0 %	— %	— %	— %
Risk-free interest rate	1.1 %	— %	— %	— %
Exercise price	$ 15.34	$ —	$ —	$ —
Forfeiture rate	— %	— %	— %	— %
Fair value of share-based compensation at grant date	$ 1,056	$ 1,728	$ 2,788	$ 325

	Options	RSUs	PSUs	DSUs
Key assumptions used for 2020 grants:				
Weighted average grant date fair value (per unit)	$ 2.11	$ 7.93	$ 4.09	$ 7.42
Dividend yield	3.9 %	— %	3.9 %	— %
Expected volatility	40.0 %	— %	47.0 %	— %
Risk-free interest rate	0.5 %	— %	0.2 %	— %
Exercise price	$ 7.42	$ —	$ 8.05	$ —
Forfeiture rate	— %	— %	— %	— %
Fair value of share-based compensation at grant date	$ 129	$ 1,152	$ 615	$ 402

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

	December 31, 2021	December 31, 2020
Accounts payable and other accrued charges	$ 4,018	$ 2,055
Contributed surplus	10,302	9,573
Total	**$ 14,320**	**$ 11,628**

The following table shows the share-based compensation expense recorded in the consolidated statements of profit or loss during the year ended December 31, 2021 and December 31, 2020:

	Year Ended December 31,	
	2021	2020
Options	$ 317	$ 165
RSUs	1,600	580
PSUs	1,729	332
DSUs	880	656
Total	**$ 4,526**	**$ 1,733**

NOTE 21 RELATED PARTY TRANSACTIONS

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.

21.1 Transactions with associates

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

For the year ended December 31, 2021, Neo purchased $2.9 million worth of compounds from TMT, purchased metals and received services from Keli amounting to $88.0 million, and from GQD and its associates amounting to $21.1 million.

For the year ended December 31, 2021, Neo sold Magnequench Powders and performed services amounting to $9.2 million to TMT. For the year ended December 31, 2021, Neo sold oxides to Keli amounting to $7.0 million.

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, respectively, amounting to $3.9 million to TMT. For the year ended December 31, 2020, Neo sold oxides to Keli amounting to $2.5 million.

21.2 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, 2021 and 2020.

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, 2021, purchases from Qian Dong were $2.5 million. For the year ended December 31, 2021, sales to Toda were $1.2 million.

For the year ended December 31, 2020, purchases from Qian Dong were $0.2 million. Sales to Toda for the year ended December 31, 2020 were $0.3 million.

21.3 Transactions with other related parties

Neo, through one of its subsidiaries in China, MQCZ, has occasionally sold products to Atatsu Co., Ltd. ("**Atatsu**") for resale to third party customers. Atatsu is controlled by members of MQCZ's key management personnel. For the year ended December 31, 2021, sales to Atatsu were $0.7 million. 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:

	Year Ended December 31,	
	2021	**2020**
Sale of goods and services to related parties	$ 20,467	$ 6,915
Purchase of goods and services from related parties	114,540	49,316

	December 31, 2021	December 31, 2020
Trade balances:		
from related parties	$ 2,070	$ 501
due to related parties	(25,925)	(17,338)
Total	**$ (23,855)**	**$ (16,837)**

NOTE 22 DIRECTORS AND KEY MANAGEMENT COMPENSATION

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

Neo's short-term compensations are as follows:

	Year Ended December 31,	
	2021	**2020**
Directors	$ 348	$ 404
Key Executive Management	4,050	4,926
Total	**$ 4,398**	**$ 5,330**

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

	Year Ended December 31,	
	2021	2020
Directors	$ 881	$ 672
Key Executive Management	2,777	1,027
Total	**$ 3,658**	**$ 1,699**

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.

NOTE 23 SALARIES EXPENSE

The employee salaries included in cost of sales, selling, general and administrative, and research and development expenses are $58.4 million and $51.9 million for the year ended December 31, 2021 and December 31, 2020, respectively.

NOTE 24 EMPLOYEE BENEFITS

24.1 Defined benefit pension plan and other post-retirement benefits

Neo has a defined benefit pension plan which covered all hourly employees employed as at September 30, 1995 and all hourly employees subsequently hired by Neo up to March 1, 2002, at Neo's former manufacturing facility in Anderson, Indiana. There are no active participants in the plan. A December 31 measurement date is used for the plan. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2021 and the next funding valuation will be as of January 1, 2022.

It is Neo's policy to make contributions to this plan that meets the funding requirements of applicable laws and regulations. Neo contributed $0.3 million during the year ended December 31, 2021, and $0.3 million during the year ended December 31, 2020. Investment policies for the plan are consistent with Neo's investment philosophy to reduce exposure to equity market risks. A pension asset investment committee meets periodically to review asset allocation percentages and investment goals. At December 31, 2021 and December 31, 2020, the U.S. plan's assets consist of the following:

	December 31, 2021	December 31, 2020
Interest-bearing cash	2.2%	3.1%
Fixed income securities	35.4%	56.3%
Equities	54.2%	40.3%
Investment funds	8.0%	0.0%
Others	0.2%	0.3%

Neo also provides postretirement health benefits to certain of its former employees from the Anderson, Indiana manufacturing facility, which closed in 2002. The measurement date used for postretirement benefit plans is

December 31. Measurement of the defined benefit obligation ("**DBO**") at December 31, 2021 and December 31, 2020 was based on a weighted-average discount rate of 2.35% and 1.75%, respectively.

The following table sets forth details of Neo's components of defined benefit cost related to its U.S. pension and postretirement benefit plans for the year ended December 31, 2021, and December 31, 2020:

Included in net loss	**Pension**		**Postretirement**		**Total**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Net interest cost	$ 48	$ 56	$ 2	$ 3	$ 50	$ 59
Service costs	—	—	—	14	—	14
Administrative expenses	30	30	—	—	30	30
Defined benefit cost included in profit or loss	**$ 78**	**$ 86**	**$ 2**	**$ 17**	**$ 80**	**$ 103**

Remeasurement (gain) loss included in other comprehensive income	**Pension**		**Postretirement**		**Total**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Actuarial loss (gain) arising from:						
Demographic assumptions	$ 32	$ (79)	$ —	$ (1)	$ 32	$ (80)
Financial assumptions	(423)	856	(4)	7	(427)	863
Experience adjustments	(138)	74	5	4	(133)	78
Return on plan assets (excluding interest income)	(434)	(363)	—	—	(434)	(363)
Total remeasurement loss recognized in other comprehensive income	**$ (963)**	**$ 488**	**$ 1**	**$ 10**	**$ (962)**	**$ 498**

The following table sets forth details of Neo's changes in the defined benefit obligation, plan assets and accrued pension and postretirement benefits as at December 31, 2021 and December 31, 2020:

Present value of defined benefit obligation	Pension		Postretirement		Total	
	2021	2020	2021	2020	2021	2020
Benefit obligation at the beginning of the period	$ 8,452	$ 7,839	$ 110	$ 94	$ 8,562	$ 7,933
Service cost	—	—	—	14	—	14
Interest expense	185	239	2	3	187	242
Actuarial gain and loss recognized in equity	(529)	851	1	10	(528)	861
Benefits paid	(467)	(477)	(12)	(11)	(479)	(488)
Benefit obligation at end of year	$ 7,641	$ 8,452	$ 101	$ 110	$ 7,742	$ 8,562
Unfunded	$ —	$ —	$ 101	$ 110	$ 101	$ 110
Partly or wholly funded	$ 7,641	$ 8,452	$ —	$ —	$ 7,641	$ 8,452

Fair value of plan assets	Pension		Postretirement		Total	
	2021	2020	2021	2020	2021	2020
Fair value of plan assets at the beginning of the period	$ 6,204	$ 5,902	$ —	$ —	$ 6,204	$ 5,902
Return on plan assets (excluding interest income)	434	363	—	—	434	363
Employer contribution	254	263	12	11	266	274
Interest income	137	183	—	—	137	183
Administrative expenses	(30)	(30)	—	—	(30)	(30)
Benefits paid	(467)	(477)	(12)	(11)	(479)	(488)
Fair value of plan assets at end of year	$ 6,532	$ 6,204	$ —	$ —	$ 6,532	$ 6,204
Net defined benefit obligation	**$ 1,109**	**$ 2,248**	**$ 101**	**$ 110**	**$ 1,210**	**$ 2,358**

The following table sets forth significant actuarial assumptions used in measuring Neo's pension and other benefit obligations and expense as at December 31, 2021 and December 31, 2020:

	Pension benefit plans		Other benefit plans	
	2021	2020	2021	2020
Actuarial assumptions				
Discount rate	2.70%	2.25%	2.35%	1.75%
Health care cost trend rate	N/A	N/A	None	None

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

	Pension benefit plans		Other benefit plans	
Assumed life expectations on retirement at age 65	**2021**	**2020**	**2021**	**2020**
Retiring today (member age 65)				
Males	19.7	19.5	19.7	19.5
Females	21.7	21.6	21.7	21.6
Retiring in 25 years (member age 40 today)				
Males	21.6	21.5	21.6	21.5
Females	23.6	23.4	23.6	23.4

At December 31, 2021 and December 31, 2020, the weighted-average duration of the defined benefit obligation was 11.7 and 12.4 years, respectively.

	Pension benefit plans		Other benefit plans	
	2021		2021	
	Increase	**Decrease**	**Increase**	**Decrease**
Sensitivity analysis				
Discount rate (1% movement)	$ (811)	$ 996	$ (6)	$ 7

	Pension benefit plans		Other benefit plans	
	2020		2020	
	Increase	**Decrease**	**Increase**	**Decrease**
Sensitivity analysis				
Discount rate (1% movement)	$ (942)	$ 1,166	$ (7)	$ 8

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

24.2 Defined contribution retirement benefits

Neo sponsors a defined contribution 401(k) retirement plan available to substantially all U.S. salaried employees and contributes up to 9% of salaried employees' compensation to the plan. Neo's contributions to the plan during the year ended December 31, 2021 and the year ended December 31, 2020 were consistent at approximately $0.2 million. Neo has a similar defined contribution plan available to all Canadian salaried employees and contributes up to 5% of salaried employees' compensation to the plan. Neo's contribution to the plan during the year ended December 31, 2021 and the year ended December 31, 2020 were consistent at approximately $0.2 million.

NOTE 25 PROVISIONS

During the year ended December 31, 2021, Neo has recorded additional provisions of $11.1 million, for the disposal of NORM and estimated potential damages for historical volumes related to ongoing patent legal litigation. A balance of $3.2 million from accounts payable and other accrued charges has been reclassified to provisions in the first quarter of 2021 to conform to the current period presentation. Such reclassification did not affect results of operations.

	Total
Balance as at January 1, 2021	6,829
Reclassified from accounts payable and other accrued charges	3,179
Provisions made, in the period	11,138
Payments made, in the period	(508)
Currency translation adjustment	49
Balance as at December 31, 2021	**$ 20,687**
Current portion	**$ 5,560**
Non-current portion	**$ 15,127**

NOTE 26 FINANCE COSTS

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

	Year Ended December 31,	
	2021	**2020**
Change in fair value of equity securities (Note 12)	$ (1,363)	$ —
Change in fair value of derivative liabilities (Note 12)	5,276	(2,405)
Dividends paid to non-controlling interest (Note 12)	—	3,335
Accretion expense on lease liabilities	166	217
Interest earned on bank deposits net of interest paid on bank advances	(168)	(269)
Loan interest accruals	32	—
Total	**$ 3,943**	**$ 878**

NOTE 27 GOVERNMENT GRANTS

Starting in March 2020, governments around the world introduced various programs and incentives including wage subsidy programs and incentives on property tax and utilities for companies who were negatively impacted by the COVID-19 global pandemic. Neo's subsidiaries in China, Singapore, Canada, Germany and Estonia benefited from these programs. Neo's application for these various programs were approved for wage subsidies and incentives on property tax and utilities. Government grants are presented in the statement of profit or loss as follows:

	Year Ended December 31,	
	2021	2020
Costs excluding depreciation and amortization	$ 715	$ 1,447
Selling, general and administrative	198	670
Research and development	—	133
Total	**$ 913**	**$ 2,250**

NOTE 28 FINANCIAL RISK MANAGEMENT

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

28.1 Market risk

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

28.2 Foreign currency exchange risk

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

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

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

The following table summarizes (in U.S. dollar equivalents) Neo's major currency exposures as of December 31, 2021:

	Chinese Renminbi	Euro	USD	Thai Baht	Canadian Dollar	British Pound
Cash and cash equivalents	$ 545	$ 3,459	$ 7,635	$ 818	$ 9,796	$ 285
Accounts receivable	461	1,435	3,976	4,840	—	—
Income taxes receivable	—	896	—	—	—	—
Other receivable	385	1,229	—	647	118	—
Bank advances and other short-term debt	—	(225)	—	—	—	—
Accounts payable and accrued liabilities	(10,014)	(14,449)	(102)	(1,954)	(2,184)	(1,504)
Lease obligations	(154)	(3)	—	(22)	(117)	—
Income taxes payable	(392)	(1,665)	—	(1,739)	(576)	—
Net financial assets (liabilities)	**$ (9,169)**	**$ (9,323)**	**$11,509**	**$ 2,590**	**$ 7,037**	**$ (1,219)**

The following table shows the impact of a one-percentage point strengthening or weakening of foreign currencies against the U.S. dollar as of December 31, 2021 for Neo's financial instruments denominated in non-functional currencies:

	Chinese Renminbi	Euro	Thai Baht	Canadian Dollar	British Pound
1% Strengthening					
Net earnings before tax	$ (92)	$ (93)	$ 26	$ 70	$ (12)
1% Weakening					
Net earnings before tax	92	93	(26)	(70)	12

The effect on profit or loss of a one-percentage point strengthening or weakening of U.S. dollar financial assets and liabilities held in non-U.S. dollar functional currency subsidiaries is a $0.1 million gain or loss, respectively.

28.3 Interest rate risk

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

As at December 31, 2021, Neo had no outstanding bank loans and approximately $6.5 million in bank advances and other short-term loans, and thus does not have significant exposure to interest rate fluctuations.

28.4 Credit risk

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

Under IFRS 9, Neo calculates a loss allowance using the ECL impairment model and the gross carrying amount of accounts receivable generally represents the maximum credit exposure. As at December 31, 2021, 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, 2021, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

28.5 Liquidity risk

Liquidity risk is the risk that Neo will not be able to meet its financial obligations as they fall due. Neo manages liquidity risk through the management of its capital structure, as outlined in Note 29**.** It also manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account Neo's sales and receipts and matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves Neo's annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisitions and other major investments.

The following table reflects the contractual maturity of Neo's financial liabilities as at December 31, 2021:

Financial liabilities	**1 year**	**2-3 years**	**4-5 years**	**Beyond 5 years**	**Total**
Bank advances and other short-term debts	$ 6,502	$ —	$ —	$ —	$ 6,502
Accounts payable and other accrued charges	94,201	—	—	—	94,201
Derivative liability*	14,704	—	—	—	14,704
Provisions	5,560	15,127	—	—	20,687
Lease obligations	1,589	1,250	106	32	2,977
Other liabilities	1,455	1,128	76	201	2,860
Total	**$124,011**	**$ 17,505**	**$ 182**	**$ 233**	**$141,931**

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

NOTE 29 CAPITAL DISCLOSURES

Neo's objectives when managing its capital are:

- to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future growth of the business, both internally and by acquisition, and
- to provide an adequate return to its shareholders;

Neo defines its capital as follows:

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

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

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

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

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

NOTE 30 SUBSEQUENT EVENTS

30.1 Dividends payable to equity holders of Neo

On March 9, 2022, the Board of Directors declared a quarterly dividend of Cdn $0.10 per common share payable in cash on March 30, 2022, to common shareholders of record at the close of business on March 22, 2022.