MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE YEAR ENDED DECEMBER 31, 2021

Management's Discussion and Analysis

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

The following Management's Discussion and Analysis ("**MD&A**") for Neo Performance Materials Inc. ("**Neo**") should be read in conjunction with the accompanying audited consolidated financial statements and related notes thereto for the year ended December 31, 2021 available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com. Unless otherwise stated, references in this section to "Neo", "our", "we" or "Group", refer to Neo Performance Materials Inc. and its consolidated subsidiaries.

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

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

The discussion and analysis in this MD&A are based upon information available to management as of March 9, 2022. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur that could affect Neo in the future.

1. Forward-Looking Information

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

The forward-looking information is only provided as of the date of this MD&A, March 9, 2022, and is subject to change as a result of new information, future events or other circumstances, as discussed above, in which case the forward-looking information will be updated by Neo as required by law.

2. Overview

Neo manufactures the building blocks of many modern technologies that enhance efficiency and sustainability. Neo’s advanced industrial materials, rare earth 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 Rare Metals segment sources, reclaims, produces, refines, and markets high-value specialty metals and their compounds. These products include both high-temperature metals (tantalum, niobium, hafnium and rhenium) and electronic metals (gallium and indium). Applications from products made in this segment primarily include superalloys for jet engines, medical imaging, wireless technologies, and LED lighting. Other applications include flat panel displays, solar, steel additives, batteries, and electronics applications.

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.

3. Selected Financial Highlights

($000s, except volume)	Year Ended December 31,			Three Months Ended December 31,		
	2021	2020	2019	2021	2020	2019
Revenue						
Magnequench	$ 263,753	$ 152,966	$ 173,800	$ 70,897	$ 52,553	$ 42,748
C&O	212,711	143,322	158,226	60,389	48,433	33,650
Rare Metals	83,604	59,688	90,622	27,296	12,096	21,564
Corporate / Eliminations	(20,817)	(9,284)	(15,184)	(5,168)	(2,685)	(3,409)
Consolidated Revenue	**$ 539,251**	**$ 346,692**	**$ 407,464**	**$ 153,414**	**$ 110,397**	**$ 94,553**
Operating Income (Loss)						
Magnequench	$ 38,413	$ 20,027	$ 28,987	$ 6,608	$ 8,102	$ 7,207
C&O	37,391	(26,505)	18,354	10,207	5,124	2,898
Rare Metals	6,578	(30,006)	(384)	2,410	(4,209)	(15)
Corporate / Eliminations	(22,495)	(19,175)	(9,455)	(6,499)	(5,827)	(3,076)
Consolidated Operating Income (Loss)	**$ 59,887**	**$ (55,659)**	**$ 37,502**	**$ 12,726**	**$ 3,190**	**$ 7,014**
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") (1)						
Magnequench	$ 48,009	$ 29,928	$ 37,053	$ 9,137	$ 11,404	$ 9,545
C&O	41,512	13,950	22,872	11,800	7,103	4,417
Rare Metals	9,154	(2,189)	5,132	3,074	(3,297)	1,181
Corporate / Eliminations	(16,760)	(12,815)	(11,301)	(4,359)	(2,902)	(2,663)
Consolidated Adjusted EBITDA	**$ 81,915**	**$ 28,874**	**$ 53,756**	**$ 19,652**	**$ 12,308**	**$ 12,480**
Volume (in mt)						
Magnequench	6,090	5,016	5,584	1,482	1,626	1,387
C&O	8,690	7,348	7,841	1,718	2,018	1,940
Rare Metals	549	412	534	160	89	128
Corporate / Eliminations	(226)	(210)	(360)	(49)	(50)	(84)
Consolidated Volumes	**15,103**	**12,566**	**13,599**	**3,311**	**3,683**	**3,371**
Net Income (Loss)	**$ 36,043**	**$ (60,089)**	**$ 23,075**	**$ 7,263**	**$ 2,356**	**$ 4,483**
Attributable to:						
Equity holders of Neo	35,177	(57,931)	22,920	6,735	2,219	4,639
Non-controlling interest	866	(2,158)	155	528	137	(156)
Earnings (Loss) per share attributable to equity holders of Neo						
Basic	$ 0.92	$ (1.54)	$ 0.59	$ 0.17	$ 0.06	$ 0.12
Diluted	$ 0.91	$ (1.54)	$ 0.59	$ 0.17	$ 0.06	$ 0.12
Adjusted Net Income (Loss) (2)	**$ 55,040**	**$ 6,165**	**$ 24,099**	**$ 16,062**	**$ 9,583**	**$ 6,117**
Attributable to:						
Equity holders of Neo	54,174	6,056	23,944	15,534	9,446	6,273
Non-controlling interest	866	109	155	528	137	(156)
Adjusted Earnings (Loss) per Share attributable to equity holders of Neo (2):						
Basic	$ 1.42	$ 0.16	$ 0.62	$ 0.39	$ 0.25	$ 0.17
Diluted	$ 1.41	$ 0.16	$ 0.61	$ 0.39	$ 0.25	$ 0.16
Capital expenditures excluding business combination	$ 9,464	$ 7,614	$ 11,723	$ 2,833	$ 1,178	$ 3,742
Cash taxes paid	$ 9,365	$ 8,641	$ 14,314	$ 2,333	$ 653	$ 3,522
Dividends paid to shareholders	$ 12,773	$ 11,297	$ 11,481	$ 3,544	$ 2,924	$ 2,856
Repurchase of common shares under Normal Course Issuer Bid	$ 37	$ 3,090	$ 16,917	$ —	$ 1,034	$ 3,704

	December 31,		
	2021	2020	2019
Cash and cash equivalents	$ 89,037	$ 72,224	$ 84,735
Debt	$ 6,502	$ 2,428	$ 54

Notes:

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

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

Highlights for the year ended and three months ended December 31, 2021

Consolidated Results

- For the year ended and three months ended December 31, 2021, revenues of $539.3 million and $153.4 million were 55.5% and 39.0% higher, respectively, than the corresponding periods of 2020. All three segments experienced an increase in revenues as volumes rose due to the economic recovery since the initial impact of COVID-19 in 2020 despite being negatively impacted by the semiconductor chip shortage in the automotive sector and by continuing global supply chain logistics challenges. Selling prices for rare earth products (including Magnequench powders) rose significantly starting from the fourth quarter of 2020 through the fourth quarter of 2021. Rare earth prices remain relatively high compared to more recent historical periods driven primarily by demand for the magnetic elements which are critical in leading technologies such as the electrification of automobiles and other environmentally sustaining technologies. Neo has benefited from these generally higher prices from both a lead-lag perspective (lower cost inventory on hand) and more dollar value margin available generally with higher prices.

- Neo reported operating income of $59.9 million and net income of $36.0 million for the year ended December 31, 2021; and operating income of $12.7 million and net income of $7.3 million for the three months ended December 31, 2021. Operating income in the year ended December 31, 2021 was higher in all three segments. In the three months ended December 31, 2021, operating income was higher in C&O and Rare Metals but lower in Magnequench.

- Operationally, all segments reported significant increases in volume, revenue, and earnings year-over-year. Magnequench saw broad volume increases across the majority of its applications including key end markets such as solutions for electrified vehicles (including traction motors) and in other applications such as factory automation and home appliances. C&O saw continued strong demand particularly for its magnetic based rare earth elements. Rare Metals saw continued recovery in aerospace markets as well as new demand from new customers in new end markets. All end markets have shown significant volume recoveries from prior year as COVID-19 related issues continue to diminish.

- Adjusted EBITDA[1] for the year ended and three months ended December 31, 2021 was $81.9 million and $19.7 million, respectively, an increase of $53.0 million or 183.7% and $7.3 million or 59.7% compared to the same periods of the prior year. Similar to operating income, in the year ended December 31, 2021, Adjusted EBITDA[1] in all three segments increased over last year. In the three months ended December 31, 2021, Adjusted EBITDA[1] was higher in C&O and Rare Metals but lower in Magnequench.

- COVID-19 had a relatively high impact when comparing the operational performance of 2021 to 2020. While the impact of COVID-19 continued into 2021, comparing the current year to 2019 pre-COVID results shows growth in volume, revenue, operating income, and adjusted EBITDA[1]. Along with the higher magnetic rare earth prices, Magnequech saw volume growth, particularly in key future technology programs and growth in the magnet manufacturing business. C&O experienced growth in volumes in its environmental catalyst and water treatment businesses in addition to the impact of higher rare earth prices in the separation business. Rare Metals continued to expand its customer base and offering new products with higher value add margins.

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

Magnequench Segment

- Operating income for the year ended December 31, 2021 was $38.4 million, an increase of $18.4 million or 91.8% compared to the year ended December 31, 2020. For the three months ended December 31, 2021, operating income was $6.6 million compared to $8.1 million in the same period in 2020; a decrease of $1.5 million or 18.4%.

- For the year ended December 31, 2021, Adjusted EBITDA(1) in the Magnequench segment was $48.0 million, compared to $29.9 million in same period of 2020; an increase of $18.1 million or 60.4%. For the three months ended December 31, 2021, Adjusted EBITDA(1) in the Magnequench segment was $9.1 million, compared to $11.4 million in the three months ended December 31, 2020; a decrease of $2.3 million or 19.9%.

- For the year ended December 31, 2021, volumes in the Magnequench segment saw a rebound and strong growth compared to prior periods. The year ended December 31, 2020 was significantly impacted by slowdowns and shutdowns in the economy primarily due to impacts from COVID-19. Volumes began to recover in the fourth quarter of 2020 and continued throughout the year 2021. The fourth quarter of 2020 and the first quarter of 2021 were both positively impacted by customers rebuilding their supply chains. While COVID-19 continued to have a tempering effect on volumes throughout the remainder of 2021, volumes throughout 2021 were also adversely impacted by the slowdown in automotive production due to the global semiconductor chip shortage and the global logistics challenges. Notwithstanding these factors, sales volumes of Magnequench powders grew by 21% over the prior year and by over 9% compared to the year ended 2019 (pre-COVID period). In addition, Magnequench compression molded magnet volumes more than doubled over the prior year, and continuing the high growth rate achieved since Magnequench began producing and selling compression molded magnets in late 2019.

- Over the last few years, Magnequench has focused on key macro growth trends that are yielding positive sales volume growth in areas such as compression magnets and electrified-automotive applications, including traction motors and pumps. Magnequench margins benefited from increased volumes and better absorption of fixed costs as well as the lead-lag impact of prices rising in rare earth components of its powder composition. Although Magnequench has strategically structured most of its sales contracts to contain pass-through pricing provisions for rare earth raw materials, in the year ended and three months ended December 31, 2021, Magnequench benefited significantly from the timing of implementation of these price increases with having some lower cost inventory on hand.

Chemicals & Oxides ("C&O") Segment

- For the year ended and three months ended December 31, 2021, the C&O segment reported operating income of $37.4 million and $10.2 million, respectively, compared to an operating loss of $26.5 million and an operating income of $5.1 million in the same periods of the prior year. The operating loss in the year ended December 31, 2020 was mainly due to the $35.1 million impairment charge (see *Consolidated Results of Operations - Impairment of assets*).

- For the year ended December 31, 2021, Adjusted EBITDA(1) was $41.5 million, compared to $14.0 million in the same period in the prior year; an increase of $27.6 million or 197.6%. For the three months ended December 31, 2021, Adjusted EBITDA(1) was $11.8 million, compared to $7.1 million in the same period in the prior year; an increase of $4.7 million or 66.1%.

- The C&O segment continues to see strong demand for various rare earth products, particularly its magnetic-based products, as the global economy continues to recover from the economic impacts of COVID-19. The demand (and price) for these magnetic elements continues to increase given their use in the electrification of automobiles and other environmentally sustainable technologies. The combination of higher prices and higher demand for magnetic rare earth products resulted in strong financial performance for the C&O segment compared to the prior periods. Higher prices supported higher dollar value margins in C&O's rare earth separations business in addition to the impact of having lower cost inventory on hand. In C&O's environmental catalysts business, volumes were reasonably consistent year over year with some slowing in the last quarter of 2021, due to reduced automotive production driven by the semiconductor chip shortage and global logistics challenges. C&O experienced some fixed costs volume absorption benefits in the third and fourth quarter as it produced more finished goods than it sold in preparation for the planned upgrade, expansion, and relocation of its environmental catalyst production facility. C&O's environmentally protective water treatment solutions business continues to perform well with higher volume and new customer adoption, although sales volume growth expectations were partially impacted by the challenges in global shipping and logistics availability.

- In the third quarter of 2021, Neo announced that it had entered into a definitive supply agreement with Energy Fuels Inc., creating an initiative to produce value-added rare earth products from natural monazite sands, a by-product of heavy mineral sands mined in the southeastern United States. Energy Fuels is processing the monazite sands into a mixed rare earth carbonate in Utah for use as feed material for Neo's value-added separated rare earth production plant in Estonia. The Silmet facility received feedstock from Energy Fuels in the fourth quarter of 2021 and expects to have commercial finished goods produced in early 2022. The ramp up of Energy Fuels based feedstock is expected to continue in 2022.

Rare Metals Segment

- For the year ended and three months ended December 31, 2021, the Rare Metals segment reported an operating income of $6.6 million and $2.4 million, respectively, compared to operating losses of $30.0 million and $4.2 million in the same periods of 2020. The operating loss in the year ended December 31, 2020 was mainly due to the $24.0 million impairment charge (see *Consolidated Results of Operations - Impairment of assets*).

- For the year ended December 31, 2021, Adjusted EBITDA(1) was $9.2 million, compared to $(2.2) million in 2020; an increase of $11.3 million. For the three months ended December 31, 2021, Adjusted EBITDA(1) in the Rare Metals segment was $3.1 million, compared to $(3.3) million in the same period in 2020.

- Similar to Magnequench and C&O, the prior year for the Rare Metals segment was also impacted by COVID-19 although more so after the first quarter of 2020 (and continuing later into 2020). Throughout the year ended December 31, 2021, the end markets of Rare Metals products exhibited some recovery. The three months ended December 31, 2021 were particularly strong as customers caught up on some historical orders and prices for certain rare metals increased in the quarter with Neo benefiting from having some lower cost inventory on hand. This benefit offset the losses on other contracts where prices were set prior to the recent price increases causing some lower of cost or net realizable value adjustments for some Rare Metals products.

- The improvement in the Rare Metals business in the year ended December 31, 2021 was also attributed to progress made in several key strategic initiatives in the segment, including selling more products outside of the aerospace industry, expanding its customer base, and diversifying its total end-market exposure. Key progress continues to be made in expanding the capacity of key products (with minimal capital investment) and refocusing the sales pipeline and manufacturing capacity toward more profitable end products. Sales prices in a number of end markets have recovered and gallium-based products are exhibiting improved market demand.

Cash and Other Highlights for the year ended December 31, 2021

- Neo continues to have a strong financial position. As at December 31, 2021, Neo had $89.0 million in cash, $1.3 million in restricted cash, and $6.5 million in short-term debt, resulting in net cash of $83.8 million. Cash generation has been negatively impacted in the year ended December 31, 2021 as increases in rare earth prices translated into higher-cost rare earth feedstock in inventory. Working capital increased by $70.7 million over December 31, 2020 as magnetic rare earth prices have more than doubled over the prior year.

- To supplement Neo's existing cash position, support working capital levels, and plan for future growth, Neo entered into two debt agreements in 2021 for a total of $37.9 million in new borrowing capacity. In addition, Neo completed an equity offering in the fourth quarter of 2021 with net proceeds of approximately $38.0 million.

- Neo invested $9.5 million in capital expenditures and paid $9.4 million in cash taxes in the year ended December 31, 2021.

- For the year ended December 31, 2021, Neo paid dividends to its shareholders of $12.8 million. As part of the Normal Course Issuer Bid program, Neo repurchased and canceled 3,400 shares for a nominal aggregate amount.

4. Non-Operating Geopolitical and Other Global Impacts

Impact of COVID-19 Pandemic

Commencing in January 2020, the outbreak of COVID-19 spread across the globe and has impacted worldwide economic activity. Conditions surrounding COVID-19 continue to evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The COVID-19 outbreak and related public health measures have adversely affected economic activity in most industries across the globe and have increased market volatility. COVID-19 has, and continues to have a significant impact on Neo's customers, suppliers, employees, performance, and operations as outlined below.

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

Neo's operating activities were also impacted by various COVID-19 shutdown requirements and the ensuing impact on raw materials and other supplies needed for production. Neo's manufacturing operations in China were shut down for an additional one to two weeks following the Lunar New Year Holiday in February 2020. Following the re-opening of the factories, manufacturing operations were slowed due to lack of demand, availability of raw materials, supplies, and other human resource restrictions. By the end of March 2020, the operations in China were largely capable of running at normal capacity, notwithstanding the reduced demand at the time, which necessitated slowing down the rare earth separation plants in the second quarter of 2020. In Estonia, Neo slowed down or altered its operations from June 2020 through November 2020 due to a lack of primary raw materials. The reduced availability of raw materials was due to suppliers shutting down operations as a result of COVID-19 restrictions in their regions.

Throughout the period, COVID-19 infections affected employees in several Neo facilities around the world. Neo does not believe that a significant amount of transmission occurred in the workplace but rather transmission is tied to general community and family transmissions. Neo slowed down or shut down facilities for relatively short periods of times in 2020 and 2021 to comply with various government mandates or in response to employee absenteeism. Neo supports its employees and team members to operate in a safe working environment and has sponsored various vaccination efforts, including hosting vaccination clinics on Neo premises.

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

While requiring significant efforts to implement, Neo does not believe that these changes had a material impact on operating performance and Neo was able to meet shipment commitments to customers.

Neo applied for various forms of government support in various regions of the world related to generally announced and available COVID-19 support funding. A total of $2.3 million of potential benefits were recorded in 2020, and $0.9 million in 2021 mainly in China, Singapore, Germany and Canada. In addition, Neo engaged in numerous cost containment strategies over the period reflecting reduced customer demand including temporary shutdowns and slowdowns to manufacturing facilities, reduced discretionary expenditures such as travel and entertainment, delayed human resource recruitment, delays in certain capital expenditures, delays in certain project and development related expenditures, and reductions in working capital to support lower demand.

As at December 31, 2021, Neo does not believe the COVID-19 has a continuing impact on liquidity. Neo has cash balances of $89.0 million and restricted cash of $1.3 million with $6.5 million in short-term debt. With the recovery in economic activity noted in early 2021, Neo has seen increased demand in most of its end markets and Neo has been investing more in working capital in 2021. Neo has not experienced a significant decline in the collectability of its accounts receivable although it continues to monitor potential bad debts and maintains an expected credit loss amount, in accordance with IFRS 9. As at December 31, 2021, Neo does not have any material debt obligations or restrictive covenants that could potentially materially impact Neo's ability to continue to finance its existing operations. Neo's planned capital investment program was slowed during 2020 due to various impacts of COVID-19 during the period, but Neo continues to make appropriate capital investments to support its existing business and for future growth with $7.3 million invested in capital equipment for the year ended December 31, 2020 and $9.2 million for the year ended December 31, 2021. As at December 31, 2021, Neo has continued to consistently pay dividends to its shareholders.

The impacts of COVID-19 on economic activity and on Neo's results were most pronounced in the second and third quarters of 2020. Starting late in the third quarter of 2020 and continuing into 2021, Neo experienced a rebound in customer activity in certain end markets and segments, resulting in an increase in sales, including customers potentially refilling portions of their supply chain. As of December 31, 2021, Neo believes that most sales and operating activities have largely returned to pre-COVID conditions, although many of the changes in the operating environments will continue to adhere to higher hygiene and social distancing requirements. Certain travel among sales, technical, and management teams have resumed but remain significantly limited. Starting in the third quarter, positive cases of COVID rose again, primarily attributed to the Delta variant. Certain OEM manufacturers have announced shutdowns and slowdowns of some factories, particularly in certain regions of the world. These shutdowns and slowdowns are also related to or are being extended by the ongoing availability challenges and cost increases in global shipping, as well as the decreased availability of semiconductors used by the automotive manufacturing industry that may be related to the ongoing COVID restrictions in many parts of the world.

Neo will continue to assess the global situation and its impact on its workforce, sales outlooks and operating conditions going forward, including certain remote working conditions. It is uncertain, given the state of additional variants and the introduction of numerous vaccines, how COVID-19 will impact global economic activity and Neo's results going forward.

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

Potential Impact of Ongoing Conflict with Russia in Ukraine

The recent action of Russian military forces in Ukraine has escalated tensions between Russia and the U.S., North Atlantic Treaty Organization ("**NATO**"), European Union ("**EU**"), United Kingdom ("**UK**") and other countries. Several countries have recently imposed a series of new sanctions targeting Russia, two separatist pro-Russian regions in Ukraine and certain individuals, banks and corporations that are seen as allies to the administration in Russia.

Neo's Silmet facility sources the majority of its rare earth feedstock from a Russian supplier. Buss & Buss sources a small amount of its tantalum scrap from a recycled source in the Baltic States which may receive some stock from Russia. Neo has engaged an advisory firm to assess the impact of these sanctions on its business. Neo currently expects, but cannot be certain, that these sanctions will not materially affect its access to the inputs it needs to operate. The removal of Russian banks from the Swift messaging system may make it more difficult for Neo to pay its Russian suppliers. Moreover, counter-measures taken by Russia, and any further sanctions imposed by various countries and governments, could have negative impacts on regional and global financial markets and economic conditions. The situation is changing rapidly and Neo cannot be certain on the extent of the conflict and the related government actions will impact Neo's material sourcing or global markets in the future.

5. Factors Affecting Neo's Performance

Revenue

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

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

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

Costs of sales

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

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

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

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

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

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

Share-based compensation

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. On November 30, 2017, Neo finalized the court approved Arrangement with Neo Cayman whereby Neo acquired all of the issued and outstanding shares of Neo Cayman in exchange for the issuance of an aggregate of 39,878,383 common shares of Neo.

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

In connection with the Arrangement, Neo has undertaken to issue common shares of Neo underlying the Stock Units, applying the exchange ratio applied in connection with the Arrangement. On October 13, 2017, Neo adopted a Stock Option Plan, in conjunction with the Initial Public Offering. On May 9, 2018, Neo adopted a long-term incentive plan (the "**LTIP**"). Neo granted Options under the Stock Option Plan, and Deferred Share Units ("**DSUs**") under the Directors Share Unit Plan, and Restricted Share Units ("**RSUs**"), Performance Stock Units ("**PSUs**") and Additional PSUs, under the LTIP. As at December 31, 2018, the liquidity event condition was not met; therefore, the Special PSUs under the Legacy Plan and Additional PSUs under the LTIP were cancelled in 2018.

On December 22, 2020, Neo completed a bought deal secondary offering of common shares of Neo. On February 17, 2021, Neo completed another bought deal secondary offering of common shares of Neo. The completion of these two bought deal secondary offerings, see *"Basis of Presentation"*, constituted a liquidity event under the Legacy Plan. As a result, 423,875 equity-settled PSUs, 1,445 equity-settled RSUs, 13,335 cash-settled PSUs and 3,516 cash-settled RSUs vested, while 211,937 equity-settled PSUs and 6,667 cash-settled PSUs were cancelled in the first quarter of 2021.

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 LTIP adopted by Neo on May 9, 2018. 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. Changes in the share price can impact the fair value of share based payment awards including cash-settled RSUs, PSUs and DSUs. This remeasured fair value will have an impact on share based compensation expense recorded in the period.

R&D

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

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

Finance income (costs), net

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

Income tax expense

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

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

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

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

6. Basis of Presentation

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, 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.

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 Neo 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.

All intercompany transactions have been eliminated.

7. Consolidated Results of Operations

Comparison of the year ended and three months ended December 31, 2021 to the year ended and three months ended December 31, 2020

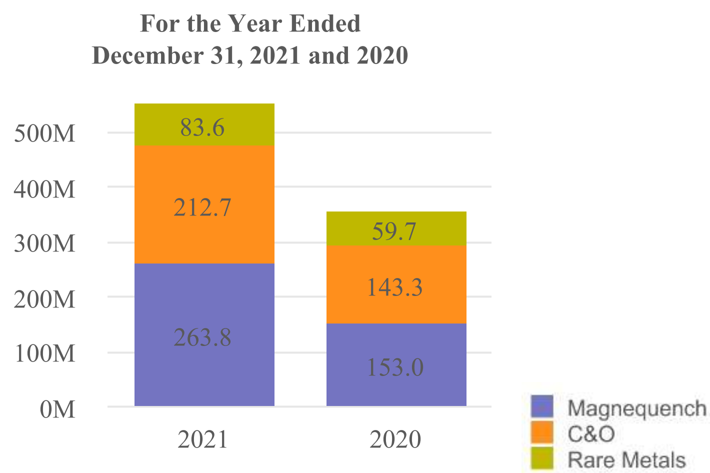
($000s)	Year Ended December 31,		Three Months Ended December 31,	
	2021	**2020**	**2021**	**2020**
Revenue	539,251	346,692	153,414	110,397
Costs of sales				
Costs excluding depreciation and amortization	380,548	256,928	111,718	82,104
Depreciation and amortization	8,176	9,430	2,405	1,999
Gross profit	**150,527**	**80,334**	**39,291**	**26,294**
Expenses				
Selling, general and administrative	58,445	53,702	17,421	16,113
Share-based compensation	4,526	1,733	1,765	817
Depreciation and amortization	7,689	7,750	1,891	1,899
Research and development	19,859	13,724	5,367	4,275
Impairment of assets	121	59,084	121	—
	90,640	135,993	26,565	23,104
Operating income (loss)	**59,887**	**(55,659)**	**12,726**	**3,190**
Other expense	(9,750)	(2,318)	(4,351)	(2,253)
Finance (cost) income, net	(3,943)	(878)	(1,523)	2,484
Foreign exchange loss	(4,388)	(651)	(2,544)	(211)
Income (loss) from operations before income taxes and equity income of associates	**41,806**	**(59,506)**	**4,308**	**3,210**
Income tax (expense) benefit	(9,580)	(1,643)	702	(832)
Income (loss) from operations before equity income of associates	**32,226**	**(61,149)**	**5,010**	**2,378**
Equity income (loss) of associates (net of income tax)	3,817	1,060	2,253	(22)
Net income (loss)	**$ 36,043**	**$ (60,089)**	**$ 7,263**	**$ 2,356**
Attributable to:				
Equity holders of Neo	35,177	$ (57,931)	6,735	$ 2,219
Non-controlling interest	866	(2,158)	528	137
	$ 36,043	**$ (60,089)**	**$ 7,263**	**$ 2,356**
Earnings (Loss) per share attributable to equity holders of Neo:				
Basic	$ 0.92	$ (1.54)	$ 0.17	$ 0.06
Diluted	$ 0.91	$ (1.54)	$ 0.17	$ 0.06

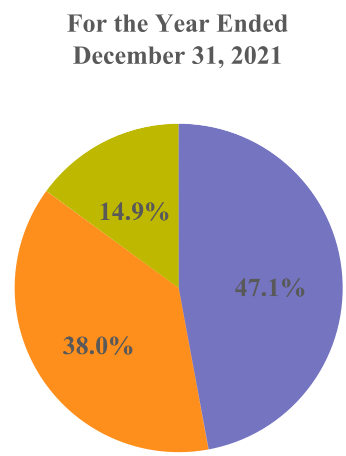
Revenue

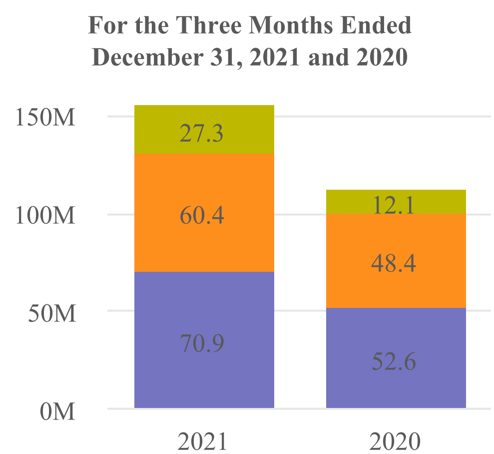
Neo’s consolidated revenue for the year ended December 31, 2021, consolidated revenue was $539.3 million compared to $346.7 million for the year ended December 31, 2020; an increase of $192.6 million or 55.5%. For the three months ended December 31, 2021, consolidated revenue was $153.4 million compared to $110.4 million for the same period in the prior year; an increase of $43.0 million or 39.0%.

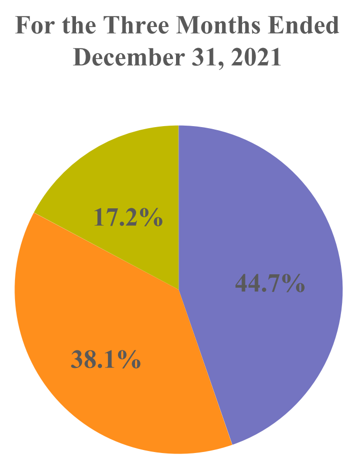
($000s)	**Year Ended December 31,**				**Three Months Ended December 31,**			
	2021	**2020**	**Change**	**%**	**2021**	**2020**	**Change**	**%**
Magnequench	$ 263,753	$ 152,966	$ 110,787	72.4%	$ 70,897	$ 52,553	$ 18,344	34.9%
C&O	212,711	143,322	69,389	48.4%	60,389	48,433	11,956	24.7%
Rare Metals	83,604	59,688	23,916	40.1%	27,296	12,096	15,200	125.7%
Eliminations	(20,817)	(9,284)	(11,533)	124.2%	(5,168)	(2,685)	(2,483)	92.5%
Consolidated Revenue	**$ 539,251**	**$ 346,692**	**$ 192,559**	55.5%	**$ 153,414**	**$ 110,397**	**$ 43,017**	39.0%

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









Notes:

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

Inter-segment revenue for the year ended December 31, 2021 was $20.8 million compared to $9.3 million in the prior year. For the three months ended December 31, 2021, inter-segment revenue was $5.2 million compared to $2.7 million in the same period of the prior year. These have been eliminated on consolidation from C&O segment revenue as C&O sold product to Magnequench in the respective periods. The products sold to Magnequench are potential marketable third-party sales and are generally sold at fair market value.

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

Costs of sales

Consolidated costs of sales, excluding depreciation and amortization, for the year ended December 31, 2021 was $380.5 million or 70.6% of revenue, compared to $256.9 million or 74.1% of revenue in the same period of the prior year. Costs of sales, excluding depreciation and amortization, as a percentage of revenue decreased mainly due to increased rare earth commodity prices, lower inventory costs relative to current selling price, additional volume benefiting the absorption of fixed costs, and product mix within the business segments. For the year ended December 31, 2021 and 2020, a portion of the government assistance related to COVID-19 relief programs in the amounts of $0.7 million and $1.4 million, respectively, was netted to cost of sales, excluding depreciation and amortization.

For the three months ended December 31, 2021, consolidated cost of sales, excluding depreciation and amortization, was $111.7 million or 72.8% of revenue, compared to $82.1 million or 74.4% of revenue in the three months ended December 31, 2020; an increase of $29.6 million or 36.1% quarter-over-quarter.

Consolidated depreciation and amortization in costs of sales were $8.2 million for the year ended December 31, 2021 compared to $9.4 million in the prior year. For the three months ended December 31, 2021, consolidated depreciation and amortization in costs of sales were $2.4 million compared to $2.0 million in the same period of the prior year. Consolidated depreciation and amortization in costs of sales in the year ended December 31, 2021 decreased due to the lower carrying value of property, plant, and equipment and finite-lived intangible assets as a result of impairments recorded in the second quarter of 2020.

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

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

Neo's SG&A expense consists primarily of personnel and related costs, including freight, legal, accounting and other professional fees, and information technology costs. For the year ended December 31, 2021, SG&A expense was $58.4 million compared to $53.7 million last year. SG&A expense for the three months ended December 31, 2021 was $17.4 million compared to $16.1 million in the same period in the prior year.

Neo's SG&A expense has increased in 2021 primarily due to transaction costs related to the bought deal secondary offerings completed in the first half of the year, and to an increase in expenses related to continuing legal costs associated with intellectual property disputes. (see "*Other Expenditures and Legal Contingencies*"). SG&A expense in 2021 was offset by $0.2 million government assistance related to COVD-19. In the year ended December 31, 2020, Neo's SG&A expense included the costs associated with the departure of a former member of Neo's executive management team, offset by $0.7 million government assistance related to COVID-19.

Share-based compensation

For the year ended and three months ended December 31, 2021, share-based compensation was $4.5 million and $1.8 million, respectively, compared to $1.7 million and $0.8 million for the year ended and three months ended December 31, 2020. The higher expense in 2021 is mainly due to the higher share price for Neo's common shares increasing the fair value of the cash-settled awards and increased service period expense for awards granted in 2020 and new grants during the third quarter of 2021.

Depreciation and amortization

Depreciation and amortization unrelated to production for the year ended and three months ended December 31, 2021 was $7.7 million and $1.9 million, respectively, comparable to $7.8 million and $1.9 million in the year ended and three months ended December 31, 2020.

R&D

For the year ended and three months ended December 31, 2021, R&D expense was $19.9 million and $5.4 million, respectively, compared to $13.7 million and $4.3 million in the corresponding periods in 2020. Neo continues to prioritize making strategic and appropriate investments in R&D to develop new applications for its products and to strategically position itself to meet customers' needs for technical solutions. Certain R&D costs are project-based and may be higher or lower in any given period.

Impairment of assets

For the year ended December 31, 2021, Neo recorded impairment charges in property, plant and equipment of $0.1 million in the C&O segment related to the assets that were no longer being utilized. In the prior year, the negative economic impacts of COVID-19 were determined to be an impairment indicator as of June 30, 2020 for all Neo's Cash Generating Units ("**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 Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of $59.1 million as of June 30, 2020, with $35.1 million attributable to the C&O segment and $24.0 million attributable to the Rare Metals segment. No impairment was recorded against the Magnequench segment. The impairment charge against the C&O and Rare Metals segments was allocated as follows:

	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**

Other income (expense)

Neo reported other expense of $9.8 million and $4.4 million, respectively, for the year ended and three months ended December 31, 2021, compared to $2.3 million for both the year ended and three months ended December 31, 2020. Neo recorded other expense for estimated damage claims related to legal proceedings and costs for the disposal of historically generated naturally occurring radioactive materials ("**NORM**"), which was offset by other income from the disposal of Neo's entire holdings of Shanxi Jiahua Galaxy Electronic Materials Co., Ltd. and insurance proceeds received related to damage incurred at the Blanding facility (now sold).

Finance cost, net

Finance cost, net, for the year ended December 31, 2021 was $3.9 million compared to $0.9 million last year. For the three months ended December 31, 2021, Neo reported net finance costs of $1.5 million compared to net finance income of $2.5 million in the same period last year. Neo's finance cost, net, in both years were primarily related to the derivative liability, which is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss. This liability is re-measured at each reporting period with the change in fair value recorded to finance cost, net. For the year ended December 31, 2021, Neo also recorded finance income of $1.4 million from the fair value re-measurement of marketable securities. For the year ended December 31, 2020, Neo recorded a dividend of $3.3 million, paid to its non-controlling interest subject to the put option as a finance cost in accordance with IAS 32.

As at December 31, 2021, Neo had approximately $6.5 million in bank advances and other short-term loans. As at December 31, 2020, $2.4 million was drawn from the line of credit.

Income tax expense

For the year ended and three months ended December 31, 2021, Neo had an income tax expense of $9.6 million and an income tax benefit of $0.7 million, respectively, on income from operations before taxes of $41.8 million and $4.3 million. For the year ended and three months ended December 31, 2020, Neo had an income tax expense of $1.6 million and $0.8 million, respectively, on loss from operations before taxes of $59.5 million for the year ended December 31, 2020 and income from operations before taxes of $3.2 million for the three months ended December 31, 2020.

Neo's effective income tax rate was 22.9% and (16.3)% for the year ended and three months ended December 31, 2021, respectively, and (2.8)% and 25.9% for the year ended and three months ended December 31, 2020.

The lower effective tax rate for the three months ended December 31, 2021 is due primarily to the tax benefit resulting from the recognition of $1.7 million of deferred tax assets that were previously unrecognized, and the $ 1.7 million tax benefit from the utilization of previously unrecognized tax losses used to reduce current year taxable earnings.

The lower effective tax rate for the year ended December 31, 2020 is due primarily to the impairment of assets for accounting purposes. During the second quarter of 2020, Neo recognized an impairment of goodwill of $33.0 million, which is not deductible for tax purposes. In addition, Neo recognized a $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, resulting in a reduction to the effective tax rate.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of $9.5 million and $2.8 million for the year ended and three months ended December 31, 2021, compared to $7.6 million and $1.2 million for the year ended and three months ended December 31, 2020. These capital projects included a combination of maintenance capital to assist with the continuing development and operations of Neo, growth capital to assist in adding new capacity or new products, and strategic capital tied to longer-term strategic planning initiatives.

In 2021, Neo has made initial investments, including a deposit for land (included in other current assets), and paid engineering design costs to evaluate the planned upgrade, expansion, and relocation of Neo's environmental catalyst production facilities. Neo continues to work on the engineering design associated with this relocation and would likely begin construction in 2022. In February 2022, Neo paid the balance of the land deposit and has now fully acquired the rights to the new land location.

Environmental Expenditures

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

Neo's Zibo facility was designed to make use of wastewater treatment and discharge facilities of an adjacent petrochemical complex. There is a variable monthly charge based on the Zibo facility's usage. The facility is also obliged to pay a monthly environmental administration fee to the municipal government of Linzi, China. For both the years ended December 31, 2021 and 2020, Neo paid annual administration fees of $0.1 million.

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

Neo's Canadian operations in Ontario are subject to federal, provincial, and local regulation and must periodically submit documentation to validate the waste disposal process throughout the year. For both the years ended December 31, 2021 and 2020, waste disposal costs related to the Rare Metals production facilities totaled $0.4 million.

Neo's NPM Silmet OÜ facility in Estonia and JAMR facility in China, in their normal operation, generates hazardous waste and NORM. These materials are stored at the site in accordance with local laws and regulations. As at December 31, 2021, Neo recorded a provision of $6.2 million for the offsite disposal of the NORM and other related costs in China, and $3.4 million for the disposal and other related costs in Estonia. The total provision for NORM increased by $2.7 million in comparison to 2020. The increase was due to updated estimates to remove the existing NORM for $3.2 million, net of $0.5 million in cash paid to prepare the NORM for disposal.

With respect to the NORM in Estonia, Neo, in agreement with the government in Estonia, had set aside $2.6 million (€2.3 million) in a restricted cash account, representing management's best estimate of the costs to be incurred by Neo to transport the NORM residue to a third party for processing. In December 2021, Neo entered into a new term loan agreement in Estonia where $2.6 million (€2.3 million) would be held back from any distribution of the term loan and the previous restricted cash was released into general company funds. Neo expects the provision for transportation of the NORM to be settled by the end of 2022.

Legal contingencies

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

There are many factors that make it difficult to estimate the impact of a particular lawsuit on Neo, including the following, among others: being in the early stage of a proceeding when the claimant is not required to specifically identify the manner in which the patent has allegedly been infringed; damages sought that are unspecified, 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 following: the possibility of an injunction prohibiting Neo from manufacturing, distributing, marketing or selling products that are found to infringe on an unexpired patent; potential damages, attorney's fees and costs that Neo could be ordered to pay if it is found to have infringed on a patent, and; damage to Neo's reputation with key customers, or prospective customers, from a finding of patent infringement.

Of the various lawsuits initiated and underway, the German Courts have ruled that certain of Neo Chemicals & Oxides (Europe) Ltd.'s ("**Neo C&O (Europe)**") products infringed four expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1("**846**"), European patent #0605274 ("**274**"), and European patent #0955267 B1 ("**267**"). Neo C&O (Europe) filed an appeal in each of the four infringement actions. The appeal with respect to 846 is still pending. Neo C&O (Europe) has either lost or withdrawn its appeals with respect to 984, 274 and 267, and consequently the judgements in these cases are final.

Neo C&O (Europe) was ordered to provide information related to the calculation of damages, but as yet there has been no determination of damages in any of the German infringement lawsuits.

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

Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed four unexpired patents: 018, 682, European Patent #1435338 B1 ("**338**") and European patent #2523907 ("**907**"). In September 2020, Neo C&O (Europe) was found to infringe 018 in Germany by the Düsseldorf Regional Court. Neo and Rhodia have both appealed this ruling, and the appeals are still pending. The Düsseldorf Regional Court 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 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 of 2020 Rhodia Operations filed a lawsuit in Estonia against NPM Silmet OÜ alleging infringement of European Patent EP 3009403. This case has not yet been set for trial.

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

Patent Reference	Jurisdiction of Claim	Specified Damages by Claimant
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.

8. Non-IFRS Financial Measures

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

Non-IFRS financial measures

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

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

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

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

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

Non-IFRS ratios

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

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

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

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

($000s, except volume)	**Year Ended December 31,**				**Three Months Ended December 31,**			
	2021	**2020**	**Change**	%	**2021**	**2020**	**Change**	%
Net income (loss)	**$36,043**	**$(60,089)**	**$ 96,132**	*n.m.*	**$ 7,263**	**$ 2,356**	**$ 4,907**	208%
Add back (deduct):								
Finance cost (income), net	3,943	878	3,065		1,523	(2,484)	4,007	
Income tax expense (benefit)	9,580	1,643	7,937		(702)	832	(1,534)	
Depreciation and amortization included in costs of sales	8,176	9,430	(1,254)		2,405	1,999	406	
Depreciation and amortization included in operating expenses	7,689	7,750	(61)		1,891	1,899	(8)	
EBITDA	**65,431**	**(40,388)**	**105,819**	*n.m.*	**12,380**	**4,602**	**7,778**	169%
Adjustments to EBITDA:								
Other expense (1)	9,750	2,318	7,432		4,351	2,253	2,098	
Foreign exchange loss (2)	4,388	651	3,737		2,544	211	2,333	
Equity income of associates	(3,817)	(1,060)	(2,757)		(2,253)	22	(2,275)	
Share and value-based compensation (3)	4,526	4,244	282		1,765	3,584	(1,819)	
Impairment of assets (4)	121	59,084	(58,963)		121	—	121	
Other costs (5)	1,516	4,025	(2,509)		744	1,636	(892)	
Adjusted EBITDA	**$81,915**	**$28,874**	**$ 53,041**	184%	**$19,652**	**$12,308**	**$ 7,344**	59.7%
Adjusted EBITDA Margins	*15.2%*	*8.3%*			*12.8%*	*11.1%*		
Less:								
Capital expenditures	$ 9,464	$ 7,614	$ 1,850	24.3%	$ 2,833	$ 1,178	$ 1,655	141%
Free Cash Flow	**$72,451**	**$21,260**	**$ 51,191**	241%	**$16,819**	**$11,130**	**$ 5,689**	51.1%
Free Cash Flow Conversion (6)	88.4%	73.6%			85.6%	90.4%		
Revenue	$539,251	$346,692	$192,559	55.5%	153,414	110,397	43,017	39.0%
Sales volume (tonnes)	15,103	12,566	2,537	20.2%	3,311	3,683	(372)	(10.1%)

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 equity securities. These costs and recoveries are not indicative of Neo's ongoing activities.

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

(3) Represents share and value-based compensation expense in respect of the Plan, the Legacy Plan, the LTIP and the long-term value bonus plan. The long-term value bonus plan is included in selling and administration expense and has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. For the year ended and three months ended December 31, 2021, value-based compensation expense was nil, as the financial statement impact of the liquidity event was recorded in the year ended December 31, 2020. For the year ended and three months ended December 31, 2020, value-based compensation recovery was $2,511 and $2,767, respectively. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(4) The negative economic impacts of COVID-19 were determined to be an impairment indicator 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 as of June 30, 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.

(5) These represent 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.

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

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

($000s)	Year Ended December 31,		Three Months Ended December 31,	
	2021	**2020**	**2021**	**2020**
Net income (loss)	**$ 36,043**	**$ (60,089)**	**$ 7,263**	**$ 2,356**
Adjustments to net income (loss):				
Foreign exchange loss [1]	4,388	651	2,544	211
Impairment of assets [2]	121	59,084	121	—
Share and value-based compensation [3]	4,526	4,244	1,765	3,584
Other costs [4]	1,516	4,025	744	1,636
Other items included in other expense [5]	10,681	2,136	4,519	2,136
Tax impact of the above items	(2,235)	(3,886)	(894)	(340)
Adjusted net income	**$ 55,040**	**$ 6,165**	**$ 16,062**	**$ 9,583**
Attributable to:				
Equity holders of Neo	$ 54,174	$ 6,056	$ 15,534	$ 9,446
Non-controlling interest	$ 866	$ 109	$ 528	$ 137
Weighted average number of common shares outstanding:				
Basic	38,140,110	37,629,963	39,332,282	37,505,596
Diluted	38,543,348	38,395,976	39,841,690	38,211,305
Adjusted earnings per share attributable to equity holders of Neo:				
Basic	$ 1.42	$ 0.16	$ 0.39	$ 0.25
Diluted	$ 1.41	$ 0.16	$ 0.39	$ 0.25

Notes:

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

(2) The negative economic impacts of COVID-19 were determined to be an impairment indicator 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 as of June 30, 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 share and value-based compensation expense in respect of the Plan, the Legacy Plan, the LTIP and the long-term value bonus plan. The long-term value bonus plan is included in selling and administration expense and has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. For the year ended and three months ended December 31, 2021, value-based compensation expense was nil, as the financial statement impact of the liquidity event was recorded in the year ended December 31, 2020. For the year ended and three months ended December 31, 2020, value-based compensation recovery was $2,511 and $2,767, respectively. Neo has removed both the share and value-based compensation expense from net income to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

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

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

9. Discussion and Analysis of Reportable Segments

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

9.1 Magnequench

($000s, except volume)	**Year Ended December 31,**				**Three Months Ended December 31,**			
	2021	**2020**	**Change**	**%**	**2021**	**2020**	**Change**	**%**
Operating income	**$38,413**	**$20,027**	**$ 18,386**	91.8%	**$ 6,608**	**$ 8,102**	**$ (1,494)**	(18.4%)
Net income	**$32,460**	**$16,437**	**$ 16,023**	97.5%	**$ 7,523**	**$ 7,356**	**$ 167**	2.3%
Add back (deduct):								
Finance (income) cost, net	(223)	30	(253)		(60)	(29)	(31)	
Income tax expense	8,147	4,318	3,829		657	776	(119)	
Depreciation and amortization included in costs of sales	3,373	3,181	192		889	815	74	
Depreciation and amortization included in operating expenses	5,946	5,760	186		1,454	1,484	(30)	
EBITDA	**49,703**	**29,726**	**19,977**	67.2%	**10,463**	**10,402**	**61**	0.6%
Other income (1)	(371)	(138)	(233)		(71)	(21)	(50)	
Foreign exchange loss (2)	2,217	440	1,777		811	(2)	813	
Equity income of associates	(3,817)	(1,060)	(2,757)		(2,253)	22	(2,275)	
Share and value-based compensation (3)	277	960	(683)		187	1,003	(816)	
Adjusted EBITDA(I)	**$48,009**	**$29,928**	**$ 18,081**	60.4%	**$ 9,137**	**$11,404**	**$ (2,267)**	(19.9%)
Adjusted EBITDA Margins(II)	18.2%	19.6%			12.9%	21.7%		
Revenue	$263,753	$152,966	$110,787	72.4%	$70,897	$52,553	$ 18,344	34.9%
Sales volume (tonnes)	6,090	5,016	1,074	21.4%	1,482	1,626	(144)	(8.9%)

Notes:

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

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

(3) Represents share and value-based compensation expense in respect of the Plan, the Legacy Plan, the LTIP and the long-term value bonus plan. The long-term value bonus plan is included in selling and administration expense and has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. For the year ended and three months ended December 31, 2021, value-based compensation expense was nil, as the financial statement impact of the liquidity event was recorded in the year ended December 31, 2020. For the year ended and three months ended December 31, 2020, value-based compensation recovery was $848 and $935, respectively. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

For the year ended December 31, 2021, revenue in the Magnequench segment was $263.8 million, compared to $153.0 million in the year ended December 31, 2020; an increase of $110.8 million or 72.4%. For the three months ended December 31, 2021, revenue in the Magnequench segment was $70.9 million, compared to $52.6 million in the three months ended December 31, 2020; an increase of $18.3 million or 34.9%. For the year ended December 31, 2021, volume increased to 6,090 tonnes, compared to 5,016 tonnes in the same period in 2020; an increase of 21.4%. For the three months ended December 31, 2021, volume was 1,482 tonnes compared to 1,626 tonnes in the three months ended December 31, 2020; a decrease of 8.9%. Generally, the differing rates of change for revenue and volumes are primarily attributed to changes in commodity input material prices and, to a lesser extent, product mix. Magnequench has material pricing pass-through agreements with the vast majority of its customers, which enables Magnequench to pass through changes in material input costs into selling price on a lagged basis.

Operating income for the year ended December 31, 2021 was $38.4 million, an increase of $18.4 million or 91.8% compared to the year ended December 31, 2020. For the three months ended December 31, 2021, operating income was $6.6 million compared to $8.1 million in the same period in 2020; a decrease of $1.5 million or 18.4%.

For the year ended December 31, 2021, volumes in the Magnequench segment saw a rebound and strong growth compared to prior periods. The year ended December 31, 2020 was significantly impacted by slowdowns and shutdowns in the economy primarily due to impacts from COVID-19. Volumes began to recover in the fourth quarter of 2020 and continued throughout the year 2021. The fourth quarter of 2020 and the first quarter of 2021 were both positively impacted by customers rebuilding their supply chains. While COVID-19 continued to have a tempering effect on volumes throughout the remainder of 2021, volumes throughout 2021 were also adversely impacted by the slowdown in automotive production due to the global semiconductor chip shortage and the global logistics challenges. Notwithstanding these factors, sales volumes of Magnequench powders grew by 21% over the prior year and by over 9% compared to the year ended 2019 (pre-COVID period). In addition, Magnequench compression molded magnet volumes more than doubled over the prior year, and continuing the high growth rate achieved since Magnequench began producing and selling compression molded magnets in late 2019.

Over the last few years, Magnequench has focused on key macro growth trends that are yielding positive sales volume growth in areas such as compression magnets and electrified-automotive applications, including traction motors and pumps. Magnequench margins benefited from increased volumes and better absorption of fixed costs as well as the lead-lag impact of prices rising in rare earth components of its powder composition. Although Magnequench has strategically structured most of its sales contracts to contain pass-through pricing provisions for rare earth raw materials, in the year ended and three months ended December 31, 2021, Magnequench benefited significantly from the timing of implementation of these price increases with having some lower cost inventory on hand.

For the year ended December 31, 2021, Adjusted EBITDA(1) in the Magnequench segment was $48.0 million, compared to $29.9 million in same period of 2020; an increase of $18.1 million or 60.4%. For the three months ended December 31, 2021, Adjusted EBITDA(1) in the Magnequench segment was $9.1 million, compared to $11.4 million in the three months ended December 31, 2020; a decrease of $2.3 million or 19.9%.

9.2 *Chemicals & Oxides*

($000s, except volume)	Year Ended December 31,				Three Months Ended December 31,			
	2021	**2020**	**Change**	%	**2021**	**2020**	**Change**	%
Operating income (loss)	**$37,391**	**$(26,505)**	**$ 63,896**	*n.m.*	**$10,207**	**$ 5,124**	**$ 5,083**	99.2%
Net income (loss)	**$27,865**	**$(25,039)**	**$ 52,904**	*n.m.*	**$ 9,100**	**$ 3,743**	**$ 5,357**	143%
Add back (deduct):								
Finance income, net	(43)	(141)	98		(8)	10	(18)	
Income tax expense (benefit)	(1,821)	(2,256)	435		(2,712)	507	(3,219)	
Depreciation and amortization included in costs of sales	2,602	3,042	(440)		994	542	452	
Depreciation and amortization included in operating expenses	1,144	1,260	(116)		282	263	19	
EBITDA	**29,747**	**(23,134)**	**52,881**	*n.m.*	**7,656**	**5,065**	**2,591**	51.2%
Other (income) expense [(1)]	9,767	676	9,091		2,653	816	1,837	
Foreign exchange (gain) loss [(2)]	1,623	255	1,368		1,174	48	1,126	
Share and value-based compensation [(3)]	254	1,089	(835)		196	1,174	(978)	
Impairment of assets [(4)]	121	35,064	(34,943)		121	—	121	
Adjusted EBITDA[(I)]	**$41,512**	**$13,950**	**$ 27,562**	198%	**$11,800**	**$ 7,103**	**$ 4,697**	66.1%
Adjusted EBITDA Margins[(II)]	19.5%	9.7%			19.5%	14.7%		
Revenue	$212,711	$143,322	$ 69,389	48.4%	$60,389	$48,433	$ 11,956	24.7%
Sales volume (tonnes)	8,690	7,348	1,342	18.3%	1,718	2,018	(300)	(14.9%)

Notes:

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

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

(3) Represents share and value-based compensation expense in respect of the Plan, the Legacy Plan, the LTIP and the long-term value bonus plan. The long-term value bonus plan is included in selling and administration expense and has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. For the year ended and three months ended December 31, 2021, value-based compensation expense was nil, as the financial statement impact of the liquidity event was recorded in the year ended December 31, 2020. For the year ended and three months ended December 31, 2020, value-based compensation recovery was $1,065 and $1,173, respectively. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(4) The negative economic impacts of COVID-19 were determined to be an impairment indicator 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 Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of $59.1 million as of June 30, 2020, with $35.1 million attributable to the C&O segment.

For the year ended December 31, 2021, revenue in the C&O segment was $212.7 million, compared to $143.3 million in the same period in 2020; an increase of $69.4 million or 48.4%. For the three months ended December 31, 2021, revenue in the C&O segment was $60.4 million, compared to $48.4 million in the same period in 2020; an increase of $12.0 million or 24.7%.

For the year ended and three months ended December 31, 2021, the C&O segment reported operating income of $37.4 million and $10.2 million, respectively, compared to an operating loss of $26.5 million and an operating income of $5.1 million in the same periods of the prior year. The operating loss in the year ended December 31, 2020 was mainly due to the $35.1 million impairment charge.

The C&O segment continues to see strong demand for various rare earth products, particularly its magnetic-based products, as the global economy continues to recover from the economic impacts of COVID-19. The demand (and price) for these magnetic elements continues to increase given their use in the electrification of automobiles and other environmentally sustainable technologies. The combination of higher prices and higher demand for magnetic rare earth products resulted in strong financial performance for the C&O segment compared to the prior periods. Higher prices supported higher dollar value margins in C&O's rare earth separations business in addition to the impact of having lower cost inventory on hand. In C&O's environmental catalysts business, volumes were reasonably consistent year over year with some slowing in the last quarter of 2021, due to reduced automotive production driven by the semiconductor chip shortage and global logistics challenges. C&O experienced some fixed costs volume absorption benefits in the third and fourth quarter as it produced more finished goods than it sold in preparation for the planned upgrade, expansion, and relocation of its environmental catalyst production facility. C&O's environmentally protective water treatment solutions business continues to perform well with higher volume and new customer adoption, although sales volume growth expectations were partially impacted by the challenges in global shipping and logistics availability.

In the third quarter of 2021, Neo announced that it had entered into a definitive supply agreement with Energy Fuels Inc., creating an initiative to produce value-added rare earth products from natural monazite sands, a by-product of heavy mineral sands mined in the southeastern United States. Energy Fuels is processing the monazite sands into a mixed rare earth carbonate in Utah for use as feed material for Neo's value-added separated rare earth production plant in Estonia. The Silmet facility received feedstock from Energy Fuels in the fourth quarter of 2021 and expects to have commercial finished goods produced in early 2022. The ramp up of Energy Fuels based feedstock is expected to continue in 2022.

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

For the year ended December 31, 2021, Adjusted EBITDA(1) was $41.5 million, compared to $14.0 million in the same period in the prior year; an increase of $27.6 million or 197.6%. For the three months ended December 31, 2021, Adjusted EBITDA(1) was $11.8 million, compared to $7.1 million in the same period in the prior year; an increase of $4.7 million or 66.1%.

9.3 Rare Metals

($000s, except volume)	Year Ended December 31,				Three Months Ended December 31,			
	2021	2020	Change	%	2021	2020	Change	%
Operating income (loss)	**$ 6,578**	**$(30,006)**	**$ 36,584**	*n.m.*	**$ 2,410**	**$ (4,209)**	**$ 6,619**	*n.m.*
Net (loss) income	**$ (1,800)**	**$(32,991)**	**$ 31,191**	*n.m.*	**$ (1,467)**	**$ (3,171)**	**$ 1,704**	53.7%
Add back (deduct):								
Finance cost, net	5,534	1,096	4,438		2,922	(2,439)	5,361	
Income tax expense (benefit)	3,218	(391)	3,609		1,354	(423)	1,777	
Depreciation and amortization included in costs of sales	2,201	3,207	(1,006)		522	642	(120)	
Depreciation and amortization included in operating expenses	262	394	(132)		70	68	2	
EBITDA	**9,415**	**(28,685)**	**38,100**	*n.m.*	**3,401**	**(5,323)**	**8,724**	*n.m.*
Other (income) expense [(1)]	354	1,729	(1,375)		23	1,470	(1,447)	
Foreign exchange (gain) loss [(2)]	(728)	551	(1,279)		(422)	354	(776)	
Share and value-based compensation [(3)]	113	196	(83)		72	202	(130)	
Impairment of assets [(4)]	—	24,020	(24,020)		—	—	—	
Adjusted EBITDA[(I)]	**$ 9,154**	**$ (2,189)**	**$ 11,343**	*n.m.*	**$ 3,074**	**$ (3,297)**	**$ 6,371**	*n.m.*
Adjusted EBITDA Margins[(II)]	10.9%	(3.7%)			11.3%	(27.3%)		
Revenue	$83,604	$59,688	$ 23,916	40.1%	$27,296	$12,096	$ 15,200	126%
Sales volume (tonnes)	549	412	137	33.3%	160	89	71	79.8%

Notes:

(1) Represents other expenses resulting from non-operational related activities, including provisions for estimated costs for disposal of historically generated NORM. These costs and recoveries are not indicative of Neo's ongoing activities.

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

(3) Represents share and value-based compensation expense in respect of the Plan, the Legacy Plan, the LTIP and the long-term value bonus plan. The long-term value bonus plan is included in selling and administration expense and has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. For the year ended and three months ended December 31, 2021, value-based compensation expense was nil, as the financial statement impact of the liquidity event was recorded in the year ended December 31, 2020. For the year ended and three months ended December 31, 2020, value-based compensation recovery was $183 and $202, respectively. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(4) The negative economic impacts of COVID-19 were determined to be an impairment indicator 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 Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of $59.1 million as of June 30, 2020, with $24.0 million attributable to the Rare Metals segment.

For the year ended December 31, 2021, revenue in the Rare Metals segment was $83.6 million, compared to $59.7 million in the same period in the prior year; an increase of $23.9 million or 40.1%. For the three months ended December 31, 2021, revenue in the Rare Metals segment was $27.3 million, compared to $12.1 million in the same period in the prior year; an increase of $15.2 million or 125.7%.

For the year ended and three months ended December 31, 2021, the Rare Metals segment reported an operating income of $6.6 million and $2.4 million, respectively, compared to operating losses of $30.0 million and $4.2 million in the same periods of 2020. The operating loss in the year ended December 31, 2020 was mainly due to the $24.0 million impairment charge.

Similar to Magnequench and C&O, the prior year for the Rare Metals segment was also impacted by COVID-19 although more so after the first quarter of 2020 (and continuing later into 2020). Throughout the year ended December 31, 2021, the end markets of Rare Metals products exhibited some recovery. The three months ended December 31, 2021 were particularly strong as customers caught up on some historical orders and prices for certain rare metals increased in the quarter with Neo benefiting from having some lower cost inventory on hand. This benefit offset the losses on other contracts where prices were set prior to the recent price increases causing some lower of cost or net realizable value adjustments for some Rare Metals products.

The improvement in the Rare Metals business in the year ended December 31, 2021 was also attributed to progress made in several key strategic initiatives in the segment, including selling more products outside of the aerospace industry, expanding its customer base, and diversifying its total end-market exposure. Key progress continues to be made in expanding the capacity of key products (with minimal capital investment) and refocusing the sales pipeline and manufacturing capacity toward more profitable end products. Sales prices in a number of end markets have recovered and gallium-based products are exhibiting improved market demand.

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

For the year ended December 31, 2021, Adjusted EBITDA(1) was $9.2 million, compared to $(2.2) million in 2020; an increase of $11.3 million. For the three months ended December 31, 2021, Adjusted EBITDA(1) in the Rare Metals segment was $3.1 million, compared to $(3.3) million in the same period in 2020; an increase of $6.4 million.

10. Summary of Consolidated Quarterly Results

($000s, except for earnings per share information)	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**$153,414**	**$119,841**	**$135,141**	**$130,855**	**$110,397**	**$77,864**	**$67,734**	**$90,697**
Net income (loss) attributable to equity holders of Neo	**6,735**	**8,036**	**12,960**	**7,446**	**2,219**	**423**	**(60,936)**	**363**
Basic EPS	0.17	0.21	0.34	0.20	0.06	0.01	(1.62)	0.01
Diluted EPS	0.17	0.21	0.34	0.20	0.06	0.01	(1.62)	0.01
Operating income (loss)	**12,726**	**12,558**	**18,195**	**16,408**	**3,190**	**1,137**	**(64,993)**	**5,007**
Net income (loss)	**7,263**	**8,136**	**13,027**	**7,617**	**2,356**	**401**	**(63,364)**	**518**
Add back (deduct):								
Finance cost (income), net	1,523	747	1,457	216	(2,484)	99	2,318	945
Income tax expense (benefit)	(702)	3,670	3,479	3,133	832	1,198	(3,229)	2,842
Depreciation and amortization included in Costs of Sales	2,405	1,980	1,912	1,879	1,999	1,996	2,715	2,720
Depreciation and amortization included in operating expenses	1,891	1,908	1,935	1,955	1,899	1,797	2,018	2,036
EBITDA	**12,380**	**16,441**	**21,810**	**14,800**	**4,602**	**5,491**	**(59,542)**	**9,061**
Add back:								
Other (income) expense [(1)]	4,351	(462)	(213)	6,074	2,253	92	(221)	194
Foreign exchange loss (gain) [(2)]	2,544	755	788	301	211	128	(138)	450
Equity (income) loss of associates	(2,253)	(288)	(343)	(933)	22	(781)	(359)	58
Share and value-based compensation [(3)]	1,765	1,198	(29)	1,592	3,584	931	(153)	(118)
Impairment of assets [(4)]	121	—	—	—	—	—	59,084	—
Other costs (recoveries) [(5)]	744	6	164	602	1,636	(131)	2,520	—
Adjusted EBITDA[(I)]	**$19,652**	**$17,650**	**$22,177**	**$22,436**	**$12,308**	**$ 5,730**	**$ 1,191**	**$ 9,645**
Adjusted EBITDA Margins[(II)]	*12.8%*	*14.7%*	*16.4%*	*17.1%*	*11.1%*	*7.4%*	*1.8%*	*10.6%*

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 NORM. These costs and recoveries are not indicative of Neo's ongoing activities.

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

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

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

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

11. Liquidity and Capital Resources

Year ended December 31, 2021 compared to year ended December 31, 2020:

	Year Ended December 31,	
($000s)	**2021**	**2020**
Cash flow:		
Cash (used in) provided by operating activities	$ (2,162)	$ 10,287
Cash used in investing activities	(7,006)	(7,362)
Cash provided by (used in) financing activities	26,201	(17,913)

Financial position - as at	**December 31, 2021**	**December 31, 2020**
Cash and cash equivalents	$ 89,037	$ 72,224
Restricted cash	1,283	4,219
Property, plant and equipment	73,378	74,322
Total assets	594,082	486,542
Bank advances and other short-term debt	6,502	2,428

As of December 31, 2021, Neo had cash and cash equivalents of $89.0 million plus restricted cash of $1.3 million, compared to $72.2 million plus $4.2 million as at December 31, 2020. In the year ended December 31, 2021, Neo paid $12.8 million in dividends to its shareholders, paid $1.7 million for cash-settled RSUs and PSUs, remitted $2.9 million related to withholding taxes on stock-based awards and received $3.3 million from stock options exercised. In addition, Neo has approximately $41.5 million available under its credit facilities with $6.5 million drawn as at December 31, 2021, compared to $2.4 million drawn as at December 31, 2020. Neo's financial position and ability to generate cash from its operations in the short and long-term remain sound.

The primary cash inflows and outflows contributing to the change from December 31, 2020 were the following:

Inflows

- $77.8 million from operations before net change in working capital, income taxes paid and net interest received;
- $38.0 million of proceeds from issuance of common shares from treasury;
- $4.1 million from bank advances and other short-term debts;

Outflows

- $12.8 million of dividends paid to shareholders;
- $1.7 million of lease payments;
- $1.7 million of cash-settled RSUs and PSUs;
- $0.4 million related to withholding taxes paid, net of amounts received for issuing common shares on stock-based awards;
- $9.5 million of other capital spending;

- $9.4 million of income taxes paid; and
- $70.7 million net change in working capital.

Cash (Used in) Provided by Operating Activities

Net cash used in operating activities was $2.2 million during the year ended December 31, 2021, compared to net cash provided by operating activities of $10.3 million for the year ended December 31, 2020. Higher cash used in operating activities was primarily due to an increase in net working capital.

The $70.7 million net change in working capital for the year ended December 31, 2021, was primarily attributable to the increase in accounts receivable from higher sales in the previous quarter, higher inventory costs driven by higher rare earth costs and C&O produced and holding more finished good in preparation for the upgrade, expansion and relocation of its environmental catalyst production facility, and a decrease in accounts payable and other accrued charges mainly as a result of settling the accruals for the value bonus related to the liquidity event and strategically controlling the purchase of raw materials. The largest portion of the increase can be attributed to higher rare earth prices (affecting Magnequench and C&O) as magnetic rare earth costs have more than doubled since the prior year end.

Cash Used in Investing Activities

For the year ended December 31, 2021, net cash used in investing activities was $7.0 million, compared to $7.4 million in the year ended December 31, 2020. The cash used in investing activities was primarily related to capital projects performed at the Zibo, Tianjin and Silmet facilities. These capital projects included a combination of maintenance capital to assist with the continuing development and operations of Neo, growth capital to assist in adding new capacity or new products, and strategic capital tied to longer-term strategic planning initiatives. In 2021, Neo has made initial investments in the design phase to evaluate the planned upgrade, expansion and relocation of Neo's environmental catalyst production facilities.

Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities during the year ended December 31, 2021 was $26.2 million, compared to $17.9 million net cash used in 2020. In the year ended December 31, 2021, Neo received $38.0 million of proceeds from issuance of common shares from treasury, drew $4.1 million from its credit facilities, received $3.3 million from stock options exercised, distributed $12.8 million in dividends to its shareholders, spent $2.9 million related to withholding taxes on stock-based awards, paid $1.7 million for cash-settled RSUs and PSUs and spent $1.7 million in lease payments. In the year ended December 31, 2020, Neo distributed $11.3 million in dividends to its shareholders and $3.7 million to non-controlling interest partners, spent $3.1 million on the repurchase of common shares and spent $1.9 million in lease payments.

($000s)

Cash and cash equivalents by Country as at	December 31, 2021	December 31, 2020
China (including Hong Kong)	$ 24,627	$ 34,512
Estonia	2,034	1,847
United States	3,113	8,428
Canada	38,903	2,968
Japan	2,612	3,013
United Kingdom	3,273	6,875
Germany	6,225	3,815
Singapore	2,761	5,570
Barbados	298	309
Thailand	4,248	3,827
Cayman Islands	6	32
Other	936	1,028
Total cash and cash equivalents	**$ 89,036**	**$ 72,224**

Approximately $8.3 million of cash on hand held by Neo's foreign operating subsidiaries relate to earnings that are considered indefinitely reinvested in these foreign subsidiaries. Although substantially all of Neo's cash and cash equivalents can be repatriated, a portion may be subject to withholding taxes under current tax laws. While some of Neo's subsidiaries are subject to local governmental restrictions on the flow of capital into and out of their jurisdictions (including in the form of cash dividends, loans or advances), these restrictions have not had a material impact on Neo's ability to meet its cash obligations. Therefore, Neo does not consider this to be a significant risk on its ability to meet ongoing commitments and fund operations.

In 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 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.

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 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.

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

12. Contractual Obligations

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

	Payments Due by Period				
($000s)	**1 year**	**2 - 3 years**	**4 - 5 years**	**Thereafter**	**Total**
Bank advances and other short-term debts	$ 6,502	$ —	$ —	$ —	6,502
Accounts payable and other accrued charges	94,201	—	—	—	94,201
Derivative liability (1)	14,704	—	—	—	14,704
Provisions (2)	5,560	15,127	—	—	20,687
Lease obligations (3)	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**

Notes:

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

(2) Represents management's best estimate of the costs to be incurred by Neo for the disposal of the hazardous NORM currently being stored at the Silmet facility and JAMR facility and an estimated damages provision related to legal proceedings (see "*Other Expenditures and Legal Contingencies*").

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

As at December 31, 2021, Neo had $89.0 million of cash and cash equivalents and approximately $1.3 million of restricted cash. The restricted cash is held as collateral against Letters of Credit. Neo believes that the remainder of its cash, in addition to cash from operating activities, is available (or sufficient) to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months.

Neo considers cash to be "available" to the extent it can be utilized in operating activities, for capital expenditures, for intercompany loans or for repatriation. Neo also maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

13. Normal Course Issuer Bid

On 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.

14. Subsequent Events

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.

15. Off-Balance Sheet Arrangements

As of December 31, 2021, Neo's only off-balance sheet arrangements are purchase obligations.

16. Significant Management Judgment in Applying Accounting Policies

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

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

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

Income taxes

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

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

Impairment

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

Business combinations

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

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2021, management assessed that the useful lives represented the expected utility of the assets to Neo.

Inventories

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

Provisions

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

Defined benefit pension liability

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

Fair value of financial instruments

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

Share-based compensation

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

Measurement uncertainty

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

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

17. Related Party Transactions and Balances

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

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

Transactions with associates

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

For the year ended December 31, 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.

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.

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:

($000s)	**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

($000s)	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)**

Directors and Key Management Compensation

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

Neo's short-term compensations are as follows:

($000s)	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:

($000s)	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.

18. Financial Instruments and Risk Management

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

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

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

($000s)	**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 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.

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

Commodity price risk

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

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

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

Foreign currency risk

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

Credit risk

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

Under IFRS 9, Neo calculates a loss allowance using the expected credit loss impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at December 31, 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.

Liquidity risk

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

19. Recent Accounting Pronouncements

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

19.1 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.

19.2 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:

19.3 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.

19.4 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.

19.5 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.

19.6 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.

19.7 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.

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

Disclosure controls and procedures

Neo's Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") are responsible for establishing and maintaining disclosure controls and procedures for Neo. Neo maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis. The CEO and CFO have evaluated the design and operating effectiveness of Neo's disclosure controls and procedures ("**DC&P**") as at December 31, 2021 and based on the evaluation, the CEO and CFO have concluded that the DC&P were effective.

Internal controls over financial reporting

Neo's internal controls over financial reporting ("**ICFR**") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Neo's management is responsible for establishing and maintaining adequate ICFR for Neo. National Instrument 52-109 of the Canadian Securities Administrators requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for Neo and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to

Neo's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. There have been no material changes during the quarter ended December 31, 2021. Neo's management, under the supervision of the CEO and CFO, has evaluated the design and operating effectiveness of Neo's ICFR based on the Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As at December 31, 2021, management assessed that Neo's ICFR were effective.

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

21. Business Risks and Uncertainties

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

Numerous risks and uncertainties could cause Neo's actual results or shareholder returns to differ materially from those expressed or implied, including those in the Forward-Looking Information, Financial Statements, other areas of this MD&A and Neo's 2021 Annual Information Form ("**AIF**") for the year ended December 31, 2021. Such risks and uncertainties include:

- Volatility in the price of Neo's common shares related to price or volume that may be unrelated to Neo's operating results;
- Payment of future dividends, which is at the discretion of the Board and may be subject to future restrictions or strategic initiatives;
- Difficulty in enforcing judgments in the jurisdictions in which Neo operates;
- The existence of a significant shareholder that may be able to direct a significant amount of voting power;
- Risks relating to the COVID-19 pandemic;
- Risks related to other geopolitical factors such as the current conflict in Ukraine, including risks associated with procuring raw material from various regions of the world, including Russia;
- Risks associated with the planned relocation of Neo's production facility in Zibo such as the inability to successfully design and build the new plant in compliance with applicable regulatory standards and necessary customer specifications;
- The variability in quarterly results particularly as it relates to commodity price changes and the inability to pass-through cost changes;
- Failure to adapt to new products and technologies that may impact the sales of Neo's products;
- Disruptions to manufacturing processes and supply related to internal or external factors;
- Risks associated with the international nature of the business, including foreign legal requirements and differences in business practices;
- Changes to the general economic, industry and market conditions, both domestically and in foreign markets;
- Potentially adverse tax consequences in various jurisdictions, including the repatriation of cash to other jurisdictions;
- The inability to maintain permits and operating licenses in the jurisdictions and segments in which Neo operates;
- The inability to continue to procure cost effective material, including rare earths as well as material subject to conflict materials regulations;
- Trade barriers, exchange controls, export restrictions and other matters related to the export of materials from the manufacturing locations;

- The inability to maintain technical advantages through continuous development, protecting know-how and trade secrets as well as enforcing intellectual property rights in the various jurisdictions;
- The inability to defend against various intellectual property rights and applications currently asserted or potentially asserted in the future, including the inability to continue to supply parts to Neo's customers without significant economic penalty;
- The management and expiry of the Joint Ventures that form part of Neo's operations;
- Changes in other regulations related to operating in the various jurisdictions, including changes with respect to the regulated rare earth industry in China;
- The inability to manage risks associated with the potential unauthorized use of Company Chops in China or any other unauthorized use of authority;
- Customers and supplier dependence, including the inability to continually develop new products that meet changing standards and requirements;
- The inability to manage environmental liability exposure and continue to operate in environmentally sensitive areas with respect to legal requirements that may continue to change over time;
- The inability to maintain the services of key personnel including senior management, key technical people and other key employees;
- The inability to protect Neo's information technology systems and protect against cybersecurity attacks or any other situations that may cause disruption to Neo's inability to access its data and manage its business;
- The entrance of other competitors or substituted technologies into the markets in which Neo operates.

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

22. Outstanding Shares Data

Class of Equity Security	**Numbers Outstanding as at December 31, 2021**
Common Shares	40,668,902
Stock Options*	1,018,073
Restricted Share Units & Performance Stock Units	165,425

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

The number of common shares outstanding as at March 9, 2022 is 40,681,902.

23. Legal Proceedings and Regulatory Actions

Legal Proceedings

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

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

Where appropriate, accruals are made in accordance with accounting standards for contingencies to provide for matters that are probable of resulting in an estimated loss. Based upon the status of the various cases, management's assessments of the likelihood of damages, and the advice of counsel, Neo has made accruals, as of December 31, 2021, for some of the proceedings outlined in *"Other Expenditures and Legal Contingencies"*, where Neo believes it would be more likely than not be liable for damages and other outflows of resources. Neo considers some of the other outstanding litigation as currently being too uncertain to result in accruals. Several of these actions are at a preliminary stage and have not gone to trial.

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

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

Regulatory Actions

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

24. Additional Information

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

MD&A Endnotes

I. See Section 8 "*Non-IFRS Measures*", which includes reconciliation of such non-IFRS measures to the most directly comparable IFRS measures.

II. See Sectional 8 "*Non-IFRS Measures*", which includes definitions and calculations of such non-IFRS ratios.