NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Neo Performance Materials Inc.

Opinion

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

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of profit or loss for the years then ended
- the consolidated statements comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going

concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
The engagement partner on the audit resulting in this auditors' report is Bryant William Ramdoo.

Toronto, Canada
March 11, 2020

NEO PERFORMANCE MATERIALS INC.

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

	December 31, 2019	December 31, 2018
ASSETS		
Current		
Cash and cash equivalents	84,735	71,015
Restricted cash	4,185	1,650
Accounts receivable (Note 7)	44,297	49,544
Inventories (Note 8)	112,891	136,350
Income taxes receivable	1,460	343
Other current assets	14,230	20,554
Total current assets	**261,798**	**279,456**
Property, plant and equipment (Note 9)	94,490	86,963
Intangible assets (Note 10)	65,475	66,721
Goodwill (Note 11)	98,841	99,365
Investments (Note 12)	8,985	8,605
Deferred tax assets (Note 21)	805	1,079
Other non-current assets	837	834
Total non-current assets	**269,433**	**263,567**
Total assets	**$ 531,231**	**$ 543,023**
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt (Note 13)	54	3,970
Accounts payable and other accrued charges	56,138	57,942
Income taxes payable	4,756	6,566
Lease obligations (Note 14)	1,660	—
Derivative liability (Note 3, 13)	11,833	9,525
Other current liabilities	85	777
Total current liabilities	**74,526**	**78,780**
Employee benefits (Note 26)	2,031	2,125
Provisions (Note 27)	5,670	4,717
Deferred tax liabilities (Note 21)	15,894	17,730
Lease obligations (Note 14)	2,953	—
Other non-current liabilities	1,524	2,494
Total non-current liabilities	**28,072**	**27,066**
Total liabilities	**102,598**	**105,846**
Non-controlling interest	3,997	4,758
Equity attributable to equity holders of Neo Performance Materials Inc.	424,636	432,419
Total equity	**428,633**	**437,177**
Total liabilities and equity	**$ 531,231**	**$ 543,023**

Commitments and contingencies (Note 17)

Subsequent events (Note 30)

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Year Ended December 31,	
	2019	**2018**
Revenue	407,464	454,195
Costs of sales		
Costs excluding depreciation and amortization	293,912	324,361
Depreciation and amortization	9,965	9,741
Gross profit	103,587	120,093
Expenses		
Selling, general and administrative	41,935	49,948
Share-based compensation (Note 22)	778	3,436
Depreciation and amortization	8,032	6,978
Research and development	14,326	16,843
Impairment of assets	1,014	—
	66,085	77,205
Operating income	**37,502**	**42,888**
Other (expense) income (Note 20)	(1,492)	10,660
Finance (costs) income, net	(2,310)	649
Foreign exchange loss	(920)	(565)
Income from operations before income taxes and equity income (loss) of associates	32,780	53,632
Income tax expense (Note 21)	(10,085)	(12,465)
Income from operations before equity income (loss) of associates	22,695	41,167
Equity income (loss) of associates (net of income tax) (Note 12)	380	(28)
Net income	**$ 23,075**	**$ 41,139**
Attributable to:		
Equity holders of Neo Performance Materials Inc.	$ 22,920	$ 40,795
Non-controlling interest	155	344
	$ 23,075	**$ 41,139**
Earnings per share attributable to equity holders of Neo Performance Materials Inc.:		
Basic (Note 19)	$ 0.59	$ 1.02
Diluted (Note 19)	$ 0.59	$ 1.01

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(all figures in thousands of United States dollars)

	Year Ended December 31,	
	2019	2018
Net income for the period	$ 23,075	$ 41,139
Other comprehensive loss:		
Item that will not be reclassified subsequently to profit or loss:		
Defined benefit pension plan actuarial (loss) gain (net of income tax (benefit) expense of $(26); 2018 - $44)	(84)	140
Item that is or may be reclassified subsequently to profit or loss:		
Currency translation adjustment	(2,277)	(8,716)
Other comprehensive loss for the period	**(2,361)**	**(8,576)**
Total comprehensive income for the period	**$ 20,714**	**$ 32,563**
Attributable to:		
Non-controlling interest	126	289
Equity holders of Neo Performance Materials Inc.	20,588	32,274
	$ 20,714	$ 32,563

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(all figures in thousands of United States dollars)

	Year Ended December 31, 2019	2018
Operating activities		
Net income for the period	$ 23,075	$ 41,139
Add (deduct) items not affecting cash:		
Depreciation and amortization	17,997	16,719
Share-based compensation	778	3,436
Provisions (Note 27)	957	—
Change in pension liability	(94)	(173)
Finance costs, net.	2,310	(649)
Equity (income)/loss of associates (Note 12)	(380)	28
Loss on disposal of property, plant and equipment	241	483
Insurance recovery included in other income	—	(11,769)
Income tax expense (Note 21)	10,085	12,465
Foreign exchange loss/(gain)	(295)	(277)
Impairment of assets	1,014	—
Restructuring costs	756	—
Other	177	472
Net change in non-cash working capital balances related to operations (Note 16)	28,992	(57,769)
Income taxes paid	(14,314)	(13,169)
Interest received, net of interest paid	(2)	328
Cash provided by (used in) operating activities	**$ 71,297**	**$ (8,736)**
Investing activities		
Additions of property, plant and equipment	(11,209)	(12,708)
Additions of intangible assets	(514)	(803)
Acquisition through business combination (Note 6)	(8,799)	—
Recovery from insurance claims	—	11,769
Increase in restricted cash	(2,467)	(190)
Other investing activities	96	—
Cash used in investing activities	**$ (22,893)**	**$ (1,932)**
Financing activities		
Repayment of bank advances and other short-term debt, net	(3,916)	3,797
Dividends paid to non-controlling interest	(881)	(1,245)
Dividends paid to equity holders of Neo Performance Materials Inc.	(11,481)	(11,714)
Repurchase of common shares	(16,917)	(3,771)
Lease payments	(1,129)	—
Other financing activities	(267)	(501)
Cash used in financing activities	**$ (34,591)**	**$ (13,434)**
Effect of exchange rate changes on cash and cash equivalents	(93)	(1,688)
Cash provided (used) during the period	**13,720**	**(25,790)**
Cash and cash equivalents, beginning of period	71,015	96,805
Cash and cash equivalents, end of period	**$ 84,735**	**$ 71,015**

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(all figures in thousands of United States dollars)

	Share Capital				Other Comprehensive Income (Loss)			Total		
	Common Stock									
	Number	Amount	Retained Earnings (Deficits)	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains (net of tax)	Accumulated Other Comprehensive Income (Loss)	Equity Attributable to Equity Holders of Neo Performance Materials Inc.	Non-Controlling Interest	Equity
Balance - January 1, 2019	**39,650,340**	**$ 40**	**$ 16,132**	**$ 420,653**	**$ (5,146)**	**$ 740**	**$ (4,406)**	**$ 432,419**	**$ 4,758**	**$ 437,177**
Net earnings	—	—	22,920	—	—	—	—	22,920	155	23,075
Other comprehensive loss	—	—	—	—	(2,248)	(84)	(2,332)	(2,332)	(29)	(2,361)
Total comprehensive income	—	—	22,920	—	(2,248)	(84)	(2,332)	20,588	126	20,714
Purchase of equity from non-controlling interest	—	—	—	—	—	—	—	—	(156)	(156)
Share-based compensation	—	—	—	294	—	—	—	294	—	294
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(11,481)	—	—	—	—	(11,481)	—	(11,481)
Dividend distributions to non-controlling interest	—	—	—	—	—	—	—	—	(731)	(731)
Shares repurchased and canceled under Normal Course Issuer Bid	(1,902,631)	(2)	—	(16,915)	—	—	—	(16,917)	—	(16,917)
Issuance of common shares for Restricted Share Units exercised	51,247	—	—	(267)	—	—	—	(267)	—	(267)
	(1,851,384)	(2)	(11,481)	(16,888)	—	—	—	(28,371)	(887)	(29,258)
Balance - December 31, 2019	**37,798,956**	**$ 38**	**$ 27,571**	**$ 403,765**	**$ (7,394)**	**$ 656**	**$ (6,738)**	**$ 424,636**	**$ 3,997**	**$ 428,633**
Balance - January 1, 2018	**39,921,577**	**$ 40**	**$ (12,949)**	**$ 422,210**	**$ 3,515**	**$ 600**	**$ 4,115**	**$ 413,416**	**$ 5,831**	**$ 419,247**
Net earnings	—	—	40,795	—	—	—	—	40,795	344	41,139
Other comprehensive income	—	—	—	—	(8,661)	140	(8,521)	(8,521)	(55)	(8,576)
Total comprehensive income	—	—	40,795	—	(8,661)	140	(8,521)	32,274	289	32,563
Share-based compensation	—	—	—	2,715	—	—	—	2,715	—	2,715
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(11,714)	—	—	—	—	(11,714)	—	(11,714)
Dividend distributions to non-controlling interest	—	—	—	—	—	—	—	—	(1,362)	(1,362)
Shares repurchased and canceled under Normal Course Issuer Bid	(321,222)	—	—	(3,771)	—	—	—	(3,771)	—	(3,771)
Issuance of common shares for Restricted Share Units exercised	49,985	—	—	(501)	—	—	—	(501)	—	(501)
	(271,237)	—	(11,714)	(1,557)	—	—	—	(13,271)	(1,362)	(14,633)
Balance - December 31, 2018	**39,650,340**	**$ 40**	**$ 16,132**	**$ 420,653**	**$ (5,146)**	**$ 740**	**$ (4,406)**	**$ 432,419**	**$ 4,758**	**$ 437,177**

See accompanying notes

NOTE 1 NATURE OF OPERATIONS

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

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

Neo has approximately 1,853 employees and has a global platform that includes 11 manufacturing facilities located in China, the United States ("**U.S.**"), Germany, Canada, Estonia, Thailand and South Korea as well as two dedicated research and development ("**R&D**") centres in Singapore and the United Kingdom ("**UK**"). Since 1994, Neo has leveraged its processing expertise to innovate and grow into a leading manufacturer of advanced industrial materials for specialty end markets. Neo has established itself as a leading commercial partner to some of the world's largest customers in the automotive, semiconductor, advanced electronic and specialty chemical industries. This includes establishing the number one (#1) global market position for powders used in bonded and hot-deformed fully dense neodymium-iron-boron ("**NdFeB**" or "**neo**") magnets, a top-three global market position in auto emission control catalysts, a leading global producer of gallium trichloride ("**$GaCl_3$**") producer for light-emitting diodes ("**LED**s"), and growth opportunities into end markets such as waste-water treatment and superalloys for aerospace and other applications. Neo is organized along three business segments: Magnequench, Chemicals & Oxides ("**C&O**") and Rare Metals, as well as the Corporate segment.

Magnequench

The Magnequench segment, with more than 30 years of manufacturing experience, is the world leader in the production of magnetic powders used in bonded and hot-deformed, fully dense 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 components in automotive motors, micro motors, traction motors, sensors, and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

C&O

The C&O segment manufactures and distributes a broad range of 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 auto catalysts, magnetic materials, consumer electronics, petroleum refining, hybrid and electric vehicles, 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.

The segment recorded a $1.0 million impairment of assets affecting operating income related to the closure of Neo Rare Metals (Utah), LLC ("**NRM Utah**") in the year ended December 31, 2019. In addition to this impairment, the segment had also recognized a restructuring and other charge of $0.8 million. Subsequent to the closure, a substantial portion of NRM Utah's business was transferred to the segment's operation in Peterborough, Ontario, which already houses the balance of the gallium business, resulting in additional synergies and efficiencies.

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.

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

NOTE 2 GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

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

The consolidated financial statements were approved and authorized for issuance by Neo's Board of Directors ("**Board**") on March 11, 2020.

NOTE 3 BASIS OF PREPARATION

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

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

Certain prior period amounts have been reclassified to conform to the current period presentation. Such reclassifications did not affect results of operations. The derivative liability has been classified as a current liability within the consolidated statements of financial position. The presentation of the amounts has been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Overall considerations

These consolidated financial statements have been prepared using accounting policies specified by those IFRS standards as issued by the IASB that are in effect at the end of the reporting period December 31, 2019.

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

4.2 Basis of Consolidation

4.2.1 Business Combinations

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

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

4.2.2 Subsidiaries and associates

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

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

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

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

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

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

Outlined below is information related to the Neo's subsidiaries and associates at December 31, 2019:

	Place of Business	Entity Type	Economic Interest	Method
Neo Cayman Holdings Ltd.	Cayman Island	Subsidiary	100%	Consolidation
Neo Performance Materials ULC	Canada	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides, LLC	United States	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides (Europe) Ltd.	United Kingdom	Subsidiary	100%	Consolidation
Neo Rare Metals (Korea) Inc.	South Korea	Subsidiary	80%	Consolidation
Neo International Corp.	Barbados	Subsidiary	100%	Consolidation
Jiangyin Jiahua Advanced Material Resources Co., Ltd.	China	Subsidiary	95%	Consolidation
Neo Japan, Inc.	Japan	Subsidiary	100%	Consolidation
Neo Performance Materials (Singapore) Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Zibo Jiahua Advanced Material Resources Co., Ltd. (1)	China	Subsidiary	98%	Consolidation
NPM Silmet OÜ	Estonia	Subsidiary	100%	Consolidation
Magnequench Japan, Inc.	Japan	Subsidiary	100%	Consolidation
Shanxi Jiahua Galaxy Electronic Materials Co., Ltd.	China	Subsidiary	60%	Consolidation
Magnequench (Korat) Co., Ltd.	Thailand	Subsidiary	100%	Consolidation
Zibo Jia Xin Magnetic Materials Ltd.	China	Subsidiary	100%	Consolidation
Neo Rare Metals (Utah), LLC.	United States	Subsidiary	100%	Consolidation
NPM Holdings (US), Inc.	United States	Subsidiary	100%	Consolidation
NMT Holdings GmbH	Germany	Subsidiary	100%	Consolidation
Buss & Buss Spezialmetalle GmbH	Germany	Subsidiary	50%	Consolidation
Neo Rare Metals (Oklahoma), LLC	United States	Subsidiary	80%	Consolidation
Magnequench, LLC	United States	Subsidiary	100%	Consolidation
Magnequench Neo Powders Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Magnequench International, LLC	United States	Subsidiary	100%	Consolidation
Xin Bao Investment Limited	Hong Kong	Subsidiary	100%	Consolidation
Magnequench (Tianjin) Company Limited	China	Subsidiary	100%	Consolidation
Magnequench Limited	Barbados	Subsidiary	100%	Consolidation
Neo Performance Materials (Beijing) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench International Trading (Tianjin) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench GmbH	Germany	Subsidiary	100%	Consolidation
Neo Performance Materials Korea Inc.	South Korea	Subsidiary	100%	Consolidation
Neo US Holdings, Inc.	Canada	Subsidiary	100%	Consolidation
Neo Magnequench Distribution, LLC	United States	Subsidiary	100%	Consolidation
Magnequench Magnetics (Chu Zhou) Co., Ltd.	China	Subsidiary	100%	Consolidation
Zibo Shijia Trading Co., Ltd. (1)	China	Subsidiary	59.6%	Consolidation

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

Notes:

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

4.2.3 Transactions eliminated on consolidation

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

4.3 Functional currency

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

4.3.1 Foreign currency transactions

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

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

4.3.2 Foreign operations

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

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

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

4.4 Segment reporting

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

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

4.5 Revenue recognition

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

4.6 Operating expenses

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

4.7 Goodwill

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

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

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

4.8 Property, plant and equipment

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

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

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

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

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

4.9 Intangible assets

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

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

4.10 Leases

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

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- Neo has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

- Neo has the right to direct the use of the asset. Neo has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, Neo has the right to direct the use of the asset if either:
  - Neo has the right to operate the asset; or
  - Neo designed the asset in a way that predetermines how and for what purpose it will be used.

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

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

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

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

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

4.11 Impairment

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

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

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

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

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

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

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

4.12 Financial instruments

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

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

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

Financial instruments - classification and measurement

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

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

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward–looking expected credit losses ("**ECL**") model. The ECL model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The existing model aligns with the simplified approach under IFRS 9, which measures lifetime ECL and forward–looking information. Neo's allowance is determined by historical experiences, and considers factors including, the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers. The adoption of IFRS 9 did not have a material impact on Neo's policy for assessing impairment of financial assets.

4.13 Inventories

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

4.14 Income taxes

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

4.14.1 Current tax

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

4.14.2 Deferred tax

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

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

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

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

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

4.15 Cash and cash equivalents

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

4.16 Employee future benefits

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

4.16.1 Defined benefit plan

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

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

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

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

4.16.2 Defined contribution benefits

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

4.17 Share-based compensation

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

4.17.1 Equity-settled share-based plans

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

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

4.17.2 Cash-settled share-based plans

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

4.17.3 Deferred share units plan

Neo has adopted a non-employee director deferred share units ("**DSUs**") plan, which is described in Note 22. Obligations related to the DSUs plan are recorded as liabilities at fair value in Accounts payable and other accrued charges, and re-measured at each reporting date at fair value with reference to the fair value of Neo's share price and the number of units that have vested. The cost of the DSUs is recognized in Operating expenses in the period they are awarded.

4.18 Significant management judgment in applying accounting policies

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

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

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

4.18.1 Income taxes

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

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

4.18.2 Impairment

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

4.18.3 Business combinations

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

4.18.4 Useful lives of depreciable assets

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

4.18.5 Inventories

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

4.18.6 Provisions

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

4.18.7 Defined benefit pension liability

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

4.18.8 Fair value of financial instruments

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

4.18.9 Share-based compensation

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

NOTE 5 RECENT ACCOUNTING PRONOUNCEMENTS

5.1 New standards issued and adopted

Neo adopted the following accounting standards and amendments to accounting standards, effective January 1, 2019:

5.1.1 IFRS 16 - Leases ("IFRS 16")

On January 13, 2016, the IASB issued IFRS 16, which supersedes IAS 17 - Leases ("**IAS 17**"), IFRIC 4 - Determining whether an Arrangement contains a Lease ("**IFRIC 4**"), SIC-15 - Operating Leases – Incentives, and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low-value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, are recorded in the statement of financial position with a right-of-use asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 requirements.

Previously, Neo determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, Neo assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4.10. On transition to IFRS 16, Neo elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or modified on or after January 1, 2019.

Neo has adopted IFRS 16 using the modified retrospective approach under which the right-of-use asset is equal to the lease liability as at January 1, 2019. As a result, comparative information has not been restated and continues to be reported under IAS 17, IFRIC 4, SIC-15, and SIC-27.

On adoption of IFRS 16, Neo recognized lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.15%.

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in Neo's consolidated financial statements	$ 6,234
Discounted using the incremental borrowing rate at January 1, 2019	5,457
Recognition exemption for:	
- Short-term leases	(32)
- leases of low-value assets	(19)
Non-lease components (such as common area maintenance fees for office buildings)	(1,179)
Extension and termination options reasonably certain to be exercised	805
Lease liabilities recognized on January 1, 2019	**$ 5,032**

Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018.

The change in accounting policy affected the following items in the consolidated statements of financial position on January 1, 2019:

	January 1, 2019
Increase in right-of-use assets	5,066
Decrease in other current assets	(34)
Increase in lease liabilities	(5,032)
Net impact to the consolidated statements of financial position	**$** —

Adjusted OIBDA, segment assets and liabilities for the period ended December 31, 2019 all increased as a result of the change in accounting policy. As a result of the adoption of IFRS 16, earnings per share was decreased by $0.002 for the year ended December 31, 2019.

The following practical expedients were applied upon transition to IFRS 16:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the treatment of operating leases with a remaining lease term of less than 12 months at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of past experience in determining the lease term where the contract contains options to extend or terminate the lease

5.1.2 IFRIC 23 - Uncertainty over income tax treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over income tax treatments ("**IFRIC 23**"). IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 - Income taxes ("**IAS 12**") when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. Neo has adopted IFRIC 23 on January 1, 2019 and there was no impact on these consolidated financial statements resulting from the adoption of this interpretation for the year ended December 31, 2019.

5.2 New standards issued but not yet adopted

There are no recent accounting pronouncements issued by the IASB that are expected to have a material impact on the financial statements of Neo.

NOTE 6 BUSINESS COMBINATION

6.1 Magnequench Magnetics (Chu Zhou) Co., Ltd.

On July 15, 2019, Neo, through a newly formed wholly owned subsidiary, MQCZ entered into a definitive agreement to purchase the net assets of Anhui Asia Magnets Co., Ltd. ("**SAMAG**"), a privately-owned manufacturer in Chuzhou, China of compression molded NdFeB bonded magnets, for a purchase price of $9.2 million (RMB 64.8 million), plus working capital of $0.3 million (RMB 2.3 million). The acquisition will further enhance the value that Neo provides to customers and is expected to leverage Neo's ability to produce high-performance magnetic powders and magnets. The transaction closed on August 26, 2019. Neo has applied IFRS 3 Business Combinations to account for the purchase of SAMAG.

The preliminary purchase equation is based on management's current best estimates of the fair value of the identifiable assets and liabilities acquired. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. The preliminary purchase price of $9.5 million is allocated as follows:

Inventories	$	392
Property, plant and equipment		5,432
Intangible assets		3,676
Goodwill		152
Accounts payable and other accrued charges		(154)
Total	**$**	**9,498**

Neo has one year from the date of acquisition to finalize the fair value of net tangible assets, goodwill and intangible assets; however, Neo does not expect significant changes from the amounts presented above.

The goodwill reflects the benefit of the increased capacity and new equipment which will allow Neo to accelerate its strategy to expand into compression molded magnet production.

Neo received a security deposit in the amount of $0.6 million (RMB 5.0 million) from the selling shareholders of SAMAG pursuant to the asset purchase agreement for the purpose of securing the indemnification obligations of SAMAG and its selling shareholders. The security deposit will be released six months after the closing date of the business combination.

As part of the acquisition, $0.4 million (RMB 3.0 million) is to be paid out to the selling shareholders of SAMAG three years after the closing date of the acquisition, subject to their continued employment with Neo. In accordance with IFRS 2, the contingent payments will be accounted for as compensation for post-combination services provided and will be expensed through profit or loss as the services are rendered.

Neo incurred acquisition-related costs of $0.2 million for the year ended December 31, 2019 and $0.2 million in the last quarter of December 31, 2018. These costs have been included in selling, general and administrative costs.

Prior to the business combination, SAMAG was a customer of Neo; however, there were no sales or purchase contracts for goods or services between Neo and SAMAG.

The following table shows the impact of the business combination on Neo's financial performance as if the business combination had been completed on January 1, 2019:

		Combined results
For the year ended December 31, 2019:		
Revenue	$	410,399
Net income		23,099

Neo considers the pro forma figures above to be an approximate measurement of the financial performance of the combined business over a twelve-month period. However, pro forma information does not account for synergies or changes to historical transactions and is not necessarily indicative of the profit of Neo if the acquisition would have occurred on January 1, 2019, nor the profit that may be achieved in the future.

NOTE 7 ACCOUNTS RECEIVABLE

Neo used the simplified provision matrix for calculating expected losses. The provision matrix is based on Neo's historical default rates over the expected life of the accounts receivable and is adjusted for forward-looking estimates. Payments are typically due 60 to 90 days upon completion of the performance obligations for each contract, generally upon delivery. A default event usually happens when an account receivable is 90 days past date.

Neo reviews all amounts periodically for indicators of impairment and the amounts impaired have been provided for in the loss allowance. The life-time expected credit loss for the year ended December 31, 2019 was nominal (2018: $0.1 million).

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

NOTE 8 INVENTORIES

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

	December 31, 2019	December 31, 2018
Raw materials	$ 37,228	$ 40,544
Work-in-progress	24,612	28,037
Finished goods	42,104	58,796
Supplies	8,947	8,973
Total	**$ 112,891**	**$ 136,350**

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

For the year ended December 31, 2019, a total of $281.8 million of inventories was included in cost of sales compared to $311.2 million for the year ended December 31, 2018.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

	Land	Building & improvements	Machinery & Equipment	Right-of-use Assets	Office equipment	Construction in Progress (net of transfer)	Total
At January 1, 2019							
Cost	$ 3,150	$ 36,256	$ 61,726	$ —	$ 3,913	$ 10,209	$115,254
Accumulated depreciation	—	(7,012)	(19,571)	—	(1,708)	—	(28,291)
Opening net book value at January 1, 2019	**$ 3,150**	**$ 29,244**	**$ 42,155**	**$ —**	**$ 2,205**	**$ 10,209**	**$ 86,963**
IFRS 16 - Leases	—	—	—	5,066	—	—	5,066
Acquisition through business combination (Note 6)	—	2,201	2,204	433	594	—	5,432
Additions	—	94	1,905	774	283	8,927	11,983
Write-offs, net of cost and accumulated depreciation	—	(16)	(187)	(76)	(10)	(356)	(645)
Transfers	—	1,203	6,759	—	654	(8,616)	—
Currency translation adjustments	—	(163)	(117)	(9)	(50)	(15)	(354)
Impairment (1)	(505)	(459)	—	—	—	—	(964)
Depreciation expense	—	(2,810)	(8,171)	(1,494)	(516)	—	(12,991)
Closing net book value at December 31, 2019	**$ 2,645**	**$ 29,294**	**$ 44,548**	**$ 4,694**	**$ 3,160**	**$ 10,149**	**$ 94,490**
Comprised of:							
Cost	$ 2,645	$ 38,952	$ 71,342	$ 5,808	$ 5,401	$ 10,149	$134,297
Accumulated depreciation	—	(9,658)	(26,794)	(1,114)	(2,241)	—	(39,807)

Notes:

(1) The Rare Metals segment recorded a $1.0 million impairment of assets related to the closure of NRM Utah in the year ended December 31, 2019 to recognize the assets based on their fair value less cost of disposal in accordance with IAS 36, Impairment of Assets.

	Land		Building & improvements		Machinery & Equipment		Office equipment		Construction in Progress (net of transfer)		Total
At January 1, 2018											
Cost	$	3,150	$	36,321	$	55,567	$	3,441	$	7,009	$ 105,488
Accumulated depreciation		—		(4,141)		(11,631)		(1,324)		—	(17,096)
Opening net book value at January 1, 2018	**$**	**3,150**	**$**	**32,180**	**$**	**43,936**	**$**	**2,117**	**$**	**7,009**	**$ 88,392**
Additions		—		197		1,821		115		10,575	12,708
Write-offs, net of cost and accumulated depreciation		—		(131)		(421)		(30)		(260)	(842)
Transfers		—		571		6,089		407		(7,067)	—
Currency translation adjustments		—		(715)		(705)		(34)		(48)	(1,502)
Depreciation expense		—		(2,858)		(8,565)		(370)		—	(11,793)
Closing net book value at December 31, 2018	**$**	**3,150**	**$**	**29,244**	**$**	**42,155**	**$**	**2,205**	**$**	**10,209**	**$ 86,963**
Comprised of:											
Cost	$	3,150	$	36,256	$	61,726	$	3,913	$	10,209	$ 115,254
Accumulated depreciation		—		(7,012)		(19,571)		(1,708)		—	(28,291)

NOTE 10 INTANGIBLE ASSETS

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

		Customer Relationships		License Agreements and Patents		Tradename		Total
At January 1, 2019								
Cost	$	70,748	$	1,154	$	6,000	$	77,902
Accumulated amortization		(11,005)		(176)		—		(11,181)
Opening net book value at January 1, 2019	$	59,743	$	978	$	6,000	$	66,721
Acquisition through business combination (Note 6)		1,329		2,347		—		3,676
Additions		—		514		—		514
Currency translation adjustments		(444)		14		—		(430)
Amortization expense		(4,750)		(256)		—		(5,006)
Closing net book value at December 31, 2019	**$**	**55,878**	**$**	**3,597**	**$**	**6,000**	**$**	**65,475**
Comprised of:								
Cost	$	71,328	$	4,031	$	6,000	$	81,359
Accumulated amortization		(15,450)		(434)		—		(15,884)

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

NOTE 11 GOODWILL

	December 31, 2019		December 31, 2018	
Opening balance as at January 1	$	99,365	$	101,893
Acquisition through business combination (Note 6)		152		—
Currency translation adjustments		(676)		(2,528)
Ending balance	**$**	**98,841**	**$**	**99,365**

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

	December 31, 2019		December 31, 2018	
Magnequench	$	65,888	$	66,411
C&O		16,667		16,668
Rare Metals		16,286		16,286
Total goodwill allocated	**$**	**98,841**	**$**	**99,365**

Intangible assets with indefinite useful life is allocated to the following group of CGUs for the purpose of annual impairment testing:

	December 31, 2019		December 31, 2018	
Magnequench	$	6,000	$	6,000

On December 31, 2019, Neo performed goodwill impairment testing for all of its CGUs in accordance with its policy and based on conditions at that date. The recoverable amounts of the group of CGUs were determined on the basis of fair value less cost to sell, covering a detailed five-year cash flow forecast. Cash flows beyond the five-year period are extrapolated using the estimated annual average growth rates stated below. The forecasted cash flows are then discounted to calculate the present value of the cash flows expected to be derived from the group of CGUs that are being tested for impairment annually. This approach involves estimates and assumptions about revenue growth rates, operating margins, tax rates and discount rates. The fair value measurement was categorized as a Level 3 fair value based on significant unobservable inputs in the valuation technique used.

1. **The annual average revenue growth rate** is determined based on management's past experience in the industry, and ranged from 0.4% to 6.9% based on Neo's five-year financial plan. The cash flow forecasts at the end of the planning period were extrapolated using estimated long-term growth rates in the range of 2.0% to 3.0%.

2. **The discount rate** is determined in order to calculate the present value of the projected cash flows of the CGUs. A first indication for an appropriate asset-specific discount rate is the weighted average cost of capital ("**WACC**") of the business. The WACC is adjusted to reflect the specific risk profile of the respective CGUs. Neo has derived the WACC based on capital market data which involves separate analysis of the cost of equity and cost of debt, and taking into consideration the market risk premium related to each CGU. The discount rate ranged from 10.6% to 12.7% for Neo's CGUs at December 31, 2019.

Neo has applied a higher discount rate to CGUs with more volatile cash flows due to participation in competitive markets and unstable customer demand, and a lower discount rate to CGUs with less volatile cash flows due to their market position and maturity of the markets they serve. Management has identified that a possible change in the discount rate of 1% could cause the carrying amount to exceed the recoverable amount in one of Neo's CGUs at December 31, 2019.

At December 31, 2019, no impairment existed in the Magnequench, C&O, and Rare Metals group of CGUs.

NOTE 12 INVESTMENTS

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

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

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

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

Aggregate financial information of these equity accounted associates as at and for the year ended December 31, 2019 and December 31, 2018 is provided below.

For the year ended December 31, 2019:

	TMT	Keli	GQD	Total
Total revenue	$ 5,609	$ 291,484	$ 32,527	$ 329,620
Share of revenue in associates	1,851	72,871	6,505	81,227
Net income	367	344	864	1,575
Share of income in associates	121	86	173	380

For the year ended December 31, 2018:

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

As at December 31, 2019:

	TMT	Keli	GQD	Total
Current assets	$ 5,246	$ 126,094	$ 12,032	$ 143,372
Non-current assets	1,388	4,361	1,406	7,155
Total assets of associates	**$ 6,634**	**$ 130,455**	**$ 13,438**	**$ 150,527**
Current liabilities	$ 1,323	$ 101,900	$ 10,162	$ 113,385
Total liabilities of associates	**$ 1,323**	**$ 101,900**	**$ 10,162**	**$ 113,385**

As at December 31, 2018:

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

Investments accounted for using the equity method are as follows:

	TMT		Keli		GQD		Total	
Carrying value at January 1, 2019	$	1,745	$	6,404	$	456	$	8,605
Share of results in associates		121		86		173		380
Carrying value at December 31, 2019	**$**	**1,866**	**$**	**6,490**	**$**	**629**	**$**	**8,985**
Carrying value at January 1, 2018	$	1,785	$	6,391	$	457	$	8,633
Share of results in associates		(40)		13		(1)		(28)
Carrying value at December 31, 2018	**$**	**1,745**	**$**	**6,404**	**$**	**456**	**$**	**8,605**

NOTE 13 CATEGORIES OF FINANCIAL INSTRUMENTS

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

Financial Assets	December 31, 2019		December 31, 2018	
Measured at amortized cost				
Cash and cash equivalents	$	84,735	$	71,015
Accounts receivable		44,297		49,544
Total financial assets	**$**	**129,032**	**$**	**120,559**

Financial Liabilities	December 31, 2019		December 31, 2018	
Fair value through profit or loss				
Put option issued to non-controlling interest of Buss & Buss (Derivative liability)	$	11,833	$	9,525
Measured at amortized cost				
Current:				
Bank advances and other short-term debt		54		3,970
Accounts payable and other accrued charges		56,138		57,942
	$	56,192	$	61,912
Total financial liabilities	**$**	**68,025**	**$**	**71,437**

13.1 Derivative liability

As at December 31, 2019, Neo's derivative liability is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss Spezialmetalle GmbH ("**Buss & Buss**"). The derivative is measured at fair value.

Buss & Buss put option	December 31, 2019		December 31, 2018	
Opening balance	$	9,525	$	9,842
Movement in fair value during the period		2,308		(317)
Ending balance	**$**	**11,833**	**$**	**9,525**

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

13.2 Financial assets and liabilities measured at fair value

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

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

The level in which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the consolidated statements of financial position as at December 31, 2019, are grouped into the fair value hierarchy as follows:

	Level 1		Level 2		Level 3	
Financial Liabilities:						
Put option issued to non-controlling interest of Buss & Buss.	$	—	$	—	$	11,833

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, 2019.

13.3 Bank advances, short-term loan and debt

13.3.1 Chinese bank advances

As of December 31, 2019, there is no amount outstanding on the line of credit in China.

13.3.2 German debt facility

As at December 31, 2019, Buss & Buss has a $6.2 million (€5.5 million) revolving line of credit which can be drawn either in Euro or U.S. dollar. The bank is entitled to revise the interest rate if the three-month Euro Interbank Offered Rate ("**Euribor**") average rate changes by more than 0.25%, up to a maximum of 0.1% plus the actual change in average rate.

The security for the revolving line of credit includes a directly enforceable guarantee of the non-controlling shareholder of Buss & Buss amounting to $0.28 million (€0.25 million) as well as a lien amounting to $0.56 million (€0.50 million) on certain property, plant and equipment. The remainder of the revolving line of credit is secured by certain working capital of Buss & Buss.

As at December 31, 2019, $0.05 million (€0.04 million) was drawn from the revolving line of credit.

There are no financial covenants which need to be met.

NOTE 14 LEASES

14.1 Right-of-use assets

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

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

Information about Neo's right-of-use assets is presented in Note 9.

14.2 Lease liabilities

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

Less than one year		536
One to five years		3,653
More than five years		907
Total undiscounted lease liabilities at December 31, 2019	**$**	**5,096**

14.3 Amounts recognized in profit or loss

The following table shows the amount of lease related expenses recognized in the statement of profit or loss for the year ended December 31, 2019:

Interest on lease liabilities	246
Expenses relating to short-term leases	43
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	6

NOTE 15 OPERATING SEGMENTS

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

A comparative breakdown of business segment information is as follows:

For the year ended December 31, 2019:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 173,800	$ 143,042	$ 90,622	$ —	$ 407,464	$ —	$ 407,464
Inter-segment revenue	—	15,184	—	—	15,184	(15,184)	—
Total revenue	**$ 173,800**	**$ 158,226**	**$ 90,622**	**$ —**	**$ 422,648**	**$ (15,184)**	**$ 407,464**
Operating income (loss)	**$ 28,987**	**$ 18,354**	**$ (384)**	**$ (10,205)**	**$ 36,752**	**$ 750**	**$ 37,502**
Other expense							(1,492)
Finance costs, net							(2,310)
Foreign exchange loss							(920)
Income from operations before income taxes and equity income (loss) of associates							**$ 32,780**
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	$ 28,987	$ 18,354	$ (384)	$ (10,205)	$ 36,752	$ 750	$ 37,502
Depreciation and amortization	8,040	5,075	4,544	338	17,997	—	17,997
Share and value-based compensation (1)	(267)	(672)	(157)	266	(830)	—	(830)
Impairment of long-lived assets(2)	—	—	1,014	—	1,014	—	1,014
Other non-recurring costs (recoveries) (3)	293	115	115	(2,450)	(1,927)	—	(1,927)
Adjusted OIBDA (4)	**$ 37,053**	**$ 22,872**	**$ 5,132**	**$ (12,051)**	**$ 53,006**	**$ 750**	**$ 53,756**
Capital expenditures (5)	$ 14,627	$ 2,874	$ 3,482	$ —	$ 20,983	$ —	$ 20,983

Notes:

(1) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP, and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation recovery of $1.6 million is included in selling, general, and administration expense for the year ended December 31, 2019.

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

(3) These represents primarily legal, professional advisory fees and other transaction costs incurred/(recovered) with respect to non-operating capital structure related transactions. This also includes some restructuring costs related to management team changes in one of Neo's subsidiaries and the purchase price fair value accounting adjustment related to the acquisition of SAMAG. These net recoveries were included in selling, general, and administration expense.

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

(5) Capital expenditures includes $9.3 million related to the assets acquired through a business combination, refer to Note 6.

For the year ended December 31, 2018:

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

Notes:

(1) Represents share and value based compensation expense in respect of the Legacy Plan and a long-term value bonus plan computed in the same manner as the share-based plan and is settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value-based compensation expense of $1.9 million was included in selling, general, and administration expense for the year ended December 31, 2018.

(2) These represents primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions. These charges were included in selling, general, and administration expense.

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

As at December 31, 2019:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
Total assets.	$ 245,882	$ 166,724	$ 105,279	$ 13,269	$ 531,154	$ 77	$ 531,231
Investment in equity method associates	8,985	—	—	—	8,985	—	8,985
Total liabilities	(37,822)	(29,618)	(24,274)	(10,884)	(102,598)	—	(102,598)

As at December 31, 2018

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

The geographic distribution of Neo's revenue based on the location of the customers for the year ended December 31, 2019 and December 31, 2018 is summarized as follows:

<u>**Revenue**</u>	Year Ended December 31, 2019	Year Ended December 31, 2018
Asia:		
China	$ 126,532	$ 148,869
Japan	63,747	67,447
Thailand	14,499	16,214
South Korea	9,828	17,811
North America	87,430	72,405
Europe	97,575	119,835
Other	7,853	11,614
Total	**$ 407,464**	**$ 454,195**

Revenue from one significant customer accounts for $61.4 million and $78.7 million of Neo's total revenue for the year ended December 31, 2019 and December 31, 2018, respectively. Neo defines significant customers as those that generate 10% or more of consolidated revenue.

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

	December 31, 2019	December 31, 2018
Asia:		
China	$ 53,509	$ 47,375
Singapore	2,746	1,481
Thailand	6,898	6,881
South Korea	—	—
North America	12,540	11,479
Europe	25,228	26,347
Other	3,391	2,839
Total	**$ 104,312**	**$ 96,402**

NOTE 16 SUPPLEMENTAL CASH FLOW INFORMATION

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

	Year Ended December 31,	
	2019	2018
Decrease (increase) in assets:		
Accounts receivable	$ 5,237	$ (5,022)
Inventories	23,050	(33,462)
Other assets	5,938	(6,416)
Increase (decrease) in liabilities:		
Accounts payable and other accrued charges	(4,537)	(10,979)
Other liabilities	(696)	(1,890)
Total net change	**$ 28,992**	**$ (57,769)**

NOTE 17 COMMITMENTS AND CONTINGENCIES

17.1 Sales and purchase commitments

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

17.2 Legal contingencies

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

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

Of the various lawsuits initiated and underway, in March 2016, the German 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 and the appeals are still pending with respect to 846, 274 and 267. Neo C&O (Europe) withdrew its appeal of the 984 infringement judgment after Rhodia withdrew part of its infringement claim in this case. 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 and 274 before the German Federal Patent Court, which upheld patents 984 and 846, but invalidated patent 274. Both Neo C&O (Europe) and Rhodia appealed the rulings of the German Federal Patent Court 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. Neo C&O (Europe) also filed an action challenging the validity of 267, which is still pending before the German Federal Patent Court.

Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed two unexpired patents, European patent # 1527018 and European patent #2007682. These actions are still pending with a trial date scheduled for July 2, 2020.

In December 2017, the Regional Court of Mannheim (Germany) determined that certain of Neo C&O (Europe)'s products infringed a German patent (European & UK patents #1435338 B1 ("**338**")), and an injunction prohibiting the sale of affected products into Germany was granted. Neo C&O (Europe) has appealed the decision. In January 2019, the Federal Patent Court in Munich revoked the German designation of patent 338. The Higher Regional Court of Karlsruhe granted Neo C&O (Europe)'s request for a stay of the injunction, subject to the requirement that Neo provide financial security. Rhodia has appealed the invalidation of patent 338 by the German Federal Patent Court, and the appeal is pending.

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. There has been no determination of damages yet in this case.

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

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

On September 26, 2018, the PRB again ruled in favor of ZAMR by invalidating all product claims associated with patent ZL 200710146613.6, held by Daiichi Kigenso Kagaku Kogyo Co. ("**DKKK**"). The PRB upheld the validity of Claim 4, which is a method claim. On October 24, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by DKKK and Rhodia Operations alleging infringement of patent ZL 200710146613.6. On November 22, 2019, the Shandong Higher Court reversed the ruling of the Zibo Intermediate Court and ordered that the case be transferred to the Ji'nan Intermediate Court for a trial on alleged infringement of Claim 4.

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.

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

On May 16, 2019, the Intermediate People's Court of Zibo, China, ruled in favor of ZAMR by finding that ZAMR had not infringed patent ZL 94194552.9. This judgment in ZAMR's favor is final.

On December 13, 2019, Rhodia Operations and DKKK voluntarily withdrew their lawsuit that alleged ZAMR infringed Chinese Patent ZL 96196505.3.

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

Patent Reference	Jurisdiction of Claim	Specified Damages by Claimant
Chinese patent ZL 03817110.4	China	$3.0 million
Chinese patent ZL 200710146613.6	China	$2.3 million
European patent 0863846 B1	Germany	$8.0 million
European patent 0735984 B1	Germany	$6.0 million
Chinese patent ZL 97195463.1	China	$0.8 million
European & UK patents 1435338 B1	UK	Not specified
European & UK patents 1435338 B1	Germany	Not specified
European patent 0605274 B1	Germany	Not specified
European patent 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified

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

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

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

NOTE 18 SHARE CAPITAL

	December 31, 2019	December 31, 2018
Number of common shares authorized for issue:	Unlimited	Unlimited
Number of preference shares authorized for issue:	Unlimited	Unlimited
Total common shares issued and fully paid	37,798,956	39,650,340
Total treasury shares	—	—

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

18.1 Common Shares

Neo's authorized capital consists of an unlimited number of Common Shares without par value. The holders of the Common Shares are entitled to receive notice of and to attend and vote at all meetings of the shareholders of Neo and each Common Share confers the right to one vote in person or by proxy at all meetings of the shareholders of Neo. The holders of the Common Shares, subject to the prior rights, if any, of any other class of shares of Neo, are entitled to receive such dividends in any financial year as the Board may by resolution determine. In the event of the liquidation, dissolution or winding-up of Neo, whether voluntary or involuntary, the holders of the Common Shares are entitled to receive, subject to the prior rights, if any, of the holders of any other class of shares of Neo, the remaining property and assets of Neo.

18.2 Preferred Shares

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

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

Neo has no current intention to issue any Preferred Shares.

Normal Course Issuer Bid

On March 19, 2019, Neo announced that the TSX has accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**Bid**") for up to 1,982,517 of its issued and outstanding common shares. In connection with the Bid, Neo has entered into an automatic share purchase plan with its designated broker to allow for purchases of its shares (the "**Share Purchase Plan**"). The Share Purchase Plan is considered an "automatic plan" for purposes of applicable Canadian securities laws. Under the Share Purchase Plan, Neo's broker may purchase shares on any trading day during the Bid, including during self-imposed trading blackout periods. The price that Neo will pay for any shares purchased under the Bid will be the prevailing market price at the time of purchase. Any shares purchased by Neo will be canceled.

For the year ended December 31, 2019, Neo repurchased and canceled 1,902,631 shares for a total consideration of $16.9 million. For the year ended December 31, 2018, Neo repurchased and canceled 321,222 shares under a previously announced normal course issuer bid for a total consideration of $3.8 million.

NOTE 19 EARNINGS PER SHARE

19.1 Basic earnings per share

The calculation of basic earnings per share was based on net income attributable to equity holders of Neo for the year ended December 31, 2019, and December 31, 2018. The weighted average number of shares outstanding is calculated as follows:

	Year Ended December 31,	
	2019	**2018**
Common shares issued at beginning of period	39,650,340	39,921,577
Weighted average impact of:		
Issuance of common shares	16,568	17,932
Repurchase and cancellation of common shares under Normal Course Issuer Bid	(845,261)	(87,320)
Weighted average number of common shares for the period - basic	**38,821,647**	**39,852,189**

19.2 Diluted earnings per share

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Net income attributable to equity holders of Neo Performance Materials Inc. - basic and diluted	$ 22,920	$ 40,795

	Year Ended December 31, 2019	Year Ended December 31, 2018
Weighted average number of common shares - basic	38,821,647	39,852,189
Dilutive effect of Stock Units	141,368	515,818
Weighted average number of common shares - diluted	**38,963,015**	**40,368,007**

	Year Ended December 31, 2019	Year Ended December 31, 2018
Earnings per share - basic	$ 0.59	$ 1.02
Earnings per share - diluted	$ 0.59	$ 1.01

For the year ended December 31, 2019, 915,815 (2018: 915,815) equity-settled PSUs were excluded from the dilutive weighted-average number of ordinary shares calculation as they are contingently issuable upon a liquidity event occurring and achieving certain shareholders' internal milestones which were not met at December 31, 2019.

NOTE 20 OTHER INCOME (EXPENSES)

Other income (expenses) are consist of the following:

	December 31, 2019	December 31, 2018
Recovery from insurance claims	—	11,769
Retroactive duty charges	172	(2,006)
NORM provision adjustment	(957)	—
Others	(707)	897
Total	**$ (1,492)**	**$ 10,660**

NOTE 21 INCOME TAXES

21.1 Income Tax Expense

	Year Ended December 31,	
	2019	2018
Current tax expense (benefit)		
Current year	$ 11,794	$ 14,800
Adjustments in respect of prior years	(283)	(702)
Total current tax expense	11,511	14,098
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	(1,426)	(1,633)
Total income tax expense	**$ 10,085**	**$ 12,465**

21.2 Reconciliation of effective tax rate

	Year Ended December 31,	
	2019	2018
Income from operations before taxes and equity income of associates	$ 32,780	$ 53,632
Income tax expense at Neo's statutory income tax rate of 26.5% (2018 - 26.5%)	8,687	14,212
Impact of countries with different tax rates	(1,837)	(10,295)
Losses and deductible temporary differences for which no deferred tax asset has been recognized	1,144	4,868
Current tax benefit with respect to prior years	(283)	(702)
Foreign withholding taxes	2,154	3,260
Deferred tax expense (benefit) on foreign exchange translation of non-monetary items	(200)	751
Expenses not deductible for tax purposes	394	671
Other	26	(300)
Total income tax expense	**$ 10,085**	**$ 12,465**

During the year ended December 31, 2018, the Company recorded other income of $11.8 million related to insurance claims affecting its subsidiary in Estonia. As these proceeds are not currently taxable and will not be distributed in the foreseeable future, a tax liability has not been recognized.

21.3 Unrecognized deferred tax assets

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

	Year Ended December 31,	
	2019	2018
Deductible temporary differences	$ 31,220	$ 33,563
Tax losses	151,648	144,915
	$ 182,868	**$ 178,478**

Tax losses for which no deferred tax asset was recognized that will not expire totaled $1.8 million while $78.4 million expire between 2020 and 2023 and $71.4 million expire between 2024 and 2039.

21.4 Unrecognized deferred tax liabilities

At December 31, 2019 taxable temporary differences of $48.5 million related to the investment in subsidiaries were not recognized because Neo controls the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

21.5 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Year Ended December 31,	
	2019	2018
Deferred Tax Assets		
Inventory	$ 2,095	$ 2,102
Property, plant and equipment and intangible assets	10	21
Accrued charges	14	—
Deferred compensation and retirement benefits	135	117
Net operating losses	433	538
Other	1,671	1,240
Deferred Tax Liabilities		
Inventory	(462)	(309)
Property, plant and equipment and intangible assets	(14,717)	(15,180)
Foreign subsidiary earnings and withholding tax	(4,056)	(5,001)
Other	(212)	(179)
Deferred tax liabilities - net	**$ (15,089)**	**$ (16,651)**

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

	Year Ended December 31,	
	2019	2018
Deferred tax assets	$ 805	$ 1,079
Deferred tax liabilities	(15,894)	(17,730)
Deferred tax liabilities - net	**$ (15,089)**	**$ (16,651)**

Movement in net deferred tax liabilities:

	Year Ended December 31,	
	2019	2018
Balance at the beginning of the period	$ (16,651)	$ (18,800)
Recognized in profit or loss	1,426	1,633
Other	136	516
Balance at the end of the period	**(15,089)**	**(16,651)**

NOTE 22 SHARE-BASED COMPENSATION

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

Equity settled share-based compensation	Options	RSUs	PSUs
Outstanding, January 1, 2019	1,158,712	189,563	915,816
Granted	—	—	—
Exercised	—	(86,532)	—
Expired	—	—	—
Outstanding, December 31, 2019	1,158,712	103,031	915,816
Exercisable, December 31, 2019	844,032	—	—
Weighted average exercise price, December 31, 2019	$ 9.46	NA	NA
Weighted average exercise price, January 1, 2019	$ 9.37	NA	NA
Weighted average exercise price, September 1, 2019, the date of exercise	NA	$ 7.62	NA
Weighted average remaining contractual life, December 31, 2019	6.62 years	0.67 years	—

Cash settled share-based compensation	RSUs	PSUs	DSUs
Outstanding, January 1, 2019	70,727	20,002	20,051
Granted	60,177	—	32,783
Exercised	(18,561)	—	—
Expired	—	—	—
Outstanding, December 31, 2019	112,343	20,002	52,834
Weighted average remaining contractual life, December 31, 2019	3.14 years	1.08 years	—

The following table illustrates the inputs used in the measurement of the grant date fair values of the share-based compensation plans granted during the year ended December 31, 2019 and the December 31, 2018:

	RSUs	DSUs
Valuation model and key assumptions for 2019 grants:		
Grant date fair value	$ 8.00	$ 9.91

	Options	RSUs	PSUs	DSUs
Valuation model and key assumptions for 2018 grants:				
Grant date fair value	$ 3.93	$ 13.85	$ 10.35	$ 13.85
Dividend yield	2.15%	—%	—%	—%
Expected volatility	38.1%	—%	27.4%	—%
Risk-free interest rate	2.8%	—%	2.1%	—%
Share price	$ 13.55	$ —	$ 13.55	$ —
Forfeiture rate - service condition	—%	—%	—%	—%

The following table shows the share-based compensation expense recorded in the consolidated statements of profit or loss during the year ended December 31, 2019 and December 31, 2018:

	Year Ended December 31,	
	2019	2018
Options	$ 202	$ 539
RSUs	204	1,393
PSUs	100	1,350
Special PSUs	—	(72)
DSUs	272	226
Total	**$ 778**	**$ 3,436**

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

	December 31, 2019	December 31, 2018
Accounts payable and other accrued charges	$ 1,008	$ 672
Contributed surplus	9,250	$ 8,956
Total	**$ 10,258**	**$ 9,628**

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

	2019	2018
Options	$ —	$ 236
RSUs	569	838
PSUs	—	226
DSUs	310	226
Total	**$ 879**	**$ 1,526**

NOTE 23 RELATED PARTY TRANSACTIONS

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

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

23.1 Transactions with associates

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

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

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

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

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

23.2 Transactions with joint venture partners

Neo, through its sales company in Japan, Neo Japan Inc., has occasionally purchased Gallium from Beijing Jiya Semiconductor Material Co., Ltd. ("**Beijing Jiya**") for resale to third party customers. No purchases were made in the year ended December 31, 2019. For the year ended December 31, 2018, these purchases were $0.7 million.

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

For the year ended December 31, 2018, purchases from Qian Dong were $0.4 million. Sales to Toda for the year ended December 31, 2018 were $1.0 million.

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

	Year Ended December 31,	
	2019	**2018**
Sale of goods and services to related parties	$ 5,785	$ 7,804
Purchase of goods and services from related parties	38,724	68,585

	December 31, 2019		December 31, 2018	
Trade balances:				
from related parties	$	348	$	327
due to related parties		(5,215)		(5,102)
Total	**$**	**(4,867)**	**$**	**(4,775)**

NOTE 24 DIRECTORS AND KEY MANAGEMENT COMPENSATION

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

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

	Year Ended December 31,			
	2019		2018	
Directors	$	309	$	282
Key Executive Management		3,806		4,389
Total	$	4,115	$	4,671

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

	Year Ended December 31,			
	2019		2018	
Directors	$	298	$	405
Key Executive Management		850		3,093
Total	$	1,148	$	3,498

Neo granted 32,783 DSUs on June 24, 2019 to the directors, and 60,177 RSUs on September 18, 2019 to a key member of executive management.

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

NOTE 25 SALARIES EXPENSE

The employee salaries included in cost of sales, selling, general and administrative, and research and development expenses are $50.7 million and $49.1 million for the year ended December 31, 2019 and December 31, 2018, respectively.

NOTE 26 EMPLOYEE BENEFITS

26.1 Defined benefit pension plan and other post-retirement benefits

Neo had a defined benefit pension plan which covered all hourly employees employed as at September 30, 1995 and all hourly employees subsequently hired by Neo up to March 1, 2002, at Neo's former manufacturing facility in Anderson, Indiana. There are no active participants in the plan. A December 31 measurement date is used for the plan. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2019 and the next funding valuation will be as of January 1, 2020.

It is Neo's policy to make contributions to this plan that meets the funding requirements of applicable laws and regulations, plus such additional amounts as deemed appropriate. Neo contributed $0.3 million during the year ended December 31, 2019, and $0.2 million during the year ended December 31, 2018. Investment policies for the plan are consistent with Neo's investment philosophy to reduce exposure to equity market risks. A pension asset investment committee meets periodically to review asset allocation percentages and investment goals. At December 31, 2019 and December 31, 2018, the U.S. plan's assets consist of the following:

	December 31, 2019	December 31, 2018
Interest-bearing cash	2.5%	4.5%
Fixed income securities	57.5%	46.8%
Equities	39.9%	43.5%
Others	0.1%	5.2%

Neo also provides postretirement health benefits to certain of its former employees from the Anderson, Indiana manufacturing facility, which closed in 2002. The measurement date used for postretirement benefit plans is December 31. Measurement of the defined benefit obligation ("**DBO**") at December 31, 2019 and December 31, 2018 was based on a weighted-average discount rate of 2.80% and 3.95%, respectively.

The following table sets forth details of Neo's components of defined benefit cost related to its U.S. pension and postretirement benefit plans for the year ended December 31, 2019, and December 31, 2018:

Included in net loss	**Pension**		**Postretirement**		**Total**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Net interest cost	$ 81	$ 78	$ 3	$ 3	$ 84	$ 81
Administrative expenses	30	30	—	—	30	30
Defined benefit cost included in profit or loss	**$ 111**	**$ 108**	**$ 3**	**$ 3**	**$ 114**	**$ 111**

Remeasurement loss (gain) included in other comprehensive income	Pension		Postretirement		Total	
	2019	2018	2019	2018	2019	2018
Actuarial loss (gain) arising from:						
Demographic assumptions	$ (85)	$ (19)	$ (1)	$ —	$ (86)	$ (19)
Financial assumptions	839	(513)	7	(4)	846	(517)
Experience adjustments	6	(6)	3	1	9	(5)
Return on plan assets (excluding interest income)	(659)	357	—	—	(659)	357
Total remeasurement loss (gain) recognized in other comprehensive income	**$ 101**	**$ (181)**	**$ 9**	**$ (3)**	**$ 110**	**$ (184)**

The following table sets forth details of Neo's changes in the defined benefit obligation, plan assets and accrued pension and postretirement benefits as at December 31, 2019 and December 31, 2018:

Present value of defined benefit obligation	Pension		Postretirement		Total	
	2019	2018	2019	2018	2019	2018
Benefit obligation at the beginning of the period	$ 7,266	$ 8,015	$ 92	$ 100	$ 7,358	$ 8,115
Service cost	—	—	—	—	—	—
Interest expense	291	276	3	3	294	279
Actuarial loss (gain) recognized in equity	760	(538)	9	(3)	769	(541)
Benefits paid	(478)	(487)	(10)	(8)	(488)	(495)
Benefit obligation at end of year	$ 7,839	$ 7,266	$ 94	$ 92	$ 7,933	$ 7,358
Unfunded	$ —	$ —	$ 94	$ 92	$ 94	$ 92
Partly or wholly funded	$ 7,839	$ 7,266	$ —	$ —	$ 7,839	$ 7,266

Fair value of plan assets	Pension		Postretirement		Total	
	2019	2018	2019	2018	2019	2018
Fair value of plan assets at the beginning of the period	$ 5,233	$ 5,678	$ —	$ —	$ 5,233	$ 5,678
Return on plan assets (excluding interest income)	659	(357)	—	—	659	(357)
Employer contribution	308	231	10	8	318	239
Interest income	210	198	—	—	210	198
Administrative expenses	(30)	(30)	—	—	(30)	(30)
Benefits paid	(478)	(487)	(10)	(8)	(488)	(495)
Fair value of plan assets at end of year	$ 5,902	$ 5,233	$ —	$ —	$ 5,902	$ 5,233
Net defined benefit obligation	**$ 1,937**	**$ 2,033**	**$ 94**	**$ 92**	**$ 2,031**	**$ 2,125**

The following table sets forth significant actuarial assumptions used in measuring Neo's pension and other benefit obligations and expense as at December 31, 2019 and December 31, 2018:

	Pension benefit plans		Other benefit plans	
	2019	**2018**	**2019**	**2018**
Actuarial assumptions				
Discount rate	3.15%	4.15%	2.80%	3.95%
Health care cost trend rate	N/A	N/A	None	None

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

	Pension benefit plans		Other benefit plans	
Assumed life expectations on retirement at age 65	**2019**	**2018**	**2019**	**2018**
Retiring today (member age 65)				
Males	19.7	19.6	19.7	19.6
Females	21.7	22.1	21.7	22.1
Retiring in 25 years (member age 40 today)				
Males	21.7	21.7	21.7	21.7
Females	23.8	24.2	23.8	24.2

At December 31, 2019 and December 31, 2018, the weighted-average duration of the defined benefit obligation was 11.8 and 11.1 years, respectively.

	Pension benefit plans		Other benefit plans	
	2019		**2019**	
	Increase	**Decrease**	**Increase**	**Decrease**
Sensitivity analysis				
Discount rate (1% movement)	$ (838)	$ 1,031	$ (6)	$ 7

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

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

26.2 Defined contribution retirement benefits

Neo sponsors a defined contribution 401(k) retirement plan available to substantially all U.S. salaried employees and contributes up to 9% of salaried employees' compensation to the plan. Neo's contributions to the plan during the year ended December 31, 2019 and the year ended December 31, 2018 were consistent at approximately $0.2 million. Neo has a similar defined contribution plan available to all Canadian salaried employees and contributes up to 5% of salaried employees' compensation to the plan. Neo's contribution to the plan during the year ended December 31, 2019 and the year ended December 31, 2018 were consistent at $0.1 million.

NOTE 27 PROVISIONS

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

As at December 31, 2019, Neo recorded a provision of $3.1 million for the disposal of the NORM and other related costs in China, and $2.6 million for the disposal and other related costs in Estonia. The total provision for NORM increased by $1.0 million over 2018. With respect to the NORM in Estonia, Neo, in agreement with the government in Estonia, has agreed to set aside $2.6 million in a restricted deposit account. These amounts represent management's best estimate of the costs to be incurred by Neo to settle the obligation. Neo expects the provision for disposal of the NORM in Estonia to be settled by March 2021.

NOTE 28 FINANCIAL RISK MANAGEMENT

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

28.1 Market risk

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

28.2 Foreign currency exchange risk

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

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

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

The following table summarizes (in U.S. dollar equivalents) Neo's major currency exposures as of December 31, 2019:

	Chinese Renminbi	Euro	USD	Thai Baht	Canadian Dollar	British Pound
Cash and cash equivalents	$ 9,137	$ 3,302	$ 12,235	$ 1,843	$ 2,728	$ 250
Accounts receivable	1,690	146	2,092	1,233	—	—
Other receivable	—	1,149	—	1,199	536	—
Bank advances and other short-term debt	—	(54)	—	—	—	—
Accounts payable and accrued liabilities	(6,827)	(9,618)	(8)	(1,746)	(991)	(289)
Lease obligations	(128)	(22)	—	(28)	(153)	(28)
Income taxes payable	(422)	(2)	—	(473)	(576)	—
Net financial assets (liabilities)	**$ 3,450**	**$ (5,099)**	**$ 14,319**	**$ 2,028**	**$ 1,544**	**$ (67)**

The following table shows the impact of a one-percentage point strengthening or weakening of foreign currencies against the U.S. dollar as of December 31, 2019 for Neo's financial instruments denominated in non-functional currencies:

	Chinese Renminbi	Euro	Thai Baht	Canadian Dollar	British Pound
1% Strengthening					
Net earnings before tax	$ 34	$ (51)	$ 20	$ 15	$ (1)
1% Weakening					
Net earnings before tax	(34)	51	(20)	(15)	1

The effect on profit or loss of a one-percentage point strengthening or weakening of U.S. dollar financial assets and liabilities held in non-U.S. dollar functional currency subsidiaries is a $17 thousand gain or loss, respectively.

28.3 Interest rate risk

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

As at December 31, 2019, Neo has no outstanding bank loans and no amount drawn from the line of credit, and thus does not have significant exposure to interest rate fluctuations.

28.4 Credit risk

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

Under IFRS 9, Neo establishes a loss allowance using the ECL impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at December 31, 2019, the loss allowance was nominal. The estimated credit losses, if any, is included in selling, general and administrative expenses in the consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

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, 2019, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

28.5 Liquidity risk

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

The following table reflects the contractual maturity of Neo's financial liabilities as at December 31, 2019:

Financial liabilities	**1 year**	**2-3 years**	**4-5 years**	**Beyond 5 years**	**Total**
Bank advances and other short-term debts	$ 54	$ —	$ —	$ —	$ 54
Accounts payable and other accrued charges	56,138	—	—	—	56,138
Derivative liability*	11,833	—	—	—	11,833
Provisions	—	5,670	—	—	5,670
Lease obligations	1,660	2,116	676	161	4,613
Other liabilities	85	1,524	—	—	1,609
Total	**$ 69,770**	**$ 9,310**	**$ 676**	**$ 161**	**$ 79,917**

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

NOTE 29 CAPITAL DISCLOSURES

Neo's objectives when managing its capital are:

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

Neo defines its capital as follows:

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

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

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

- return on capital employed ("**ROCE**"): adjusted operating income divided by average adjusted capital employed – ROCE is a key measurement of financial performance, focusing on cash and the efficient use of capital;

- net debt to capitalization, is net debt (the sum of long-term debt including the current portion and bank advances, less cash), divided by the sum of net debt, shareholders' equity and non-controlling interests.

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

NOTE 30 SUBSEQUENT EVENTS

30.1 Normal Course Issuer Bid

Between January 1 and March 10, 2020, Neo repurchased, for cancellation, 106,200 shares for a total consideration of $0.8 million.

30.2 Dividends payable to equity holders of Neo

On March 10, 2020, the Board of Directors declared a quarterly dividend of Cdn $0.10 per common share payable in cash on March 27, 2020, to common shareholders of record at the close of business on March 18, 2020.