



**NEO PERFORMANCE MATERIALS INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2020**



KPMG LLP  
333 Bay Street, Suite 4600  
Toronto, ON M5H 2S5  
Tel 416-777-8500  
Fax 416-777-8818  
www.kpmg.ca

## 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, 2020 and December 31, 2019
- the consolidated statements of profit or loss for the years then ended
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, 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.

### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

### ***Evaluation of the recoverable amount of groups of cash generating units containing goodwill***

#### ***Description of the matter***

We draw attention to Notes 4.7, 4.18.2 and 11 to the financial statements. Goodwill is assigned to a cash generating unit or group of cash generating units. During the year, the Entity recorded impairment charges of \$35,064 thousand related to the Chemicals & Oxides (C&O) group of cash generating units and \$24,020 thousand related to the Rare Metals group of cash generating units. The Entity performs impairment testing for each group of cash generating units containing goodwill on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value of the group of cash generating units might be impaired. The recoverable amount of a group of cash generating units is the greater of its value in use and its fair value less costs to sell. The estimated recoverable amount was determined based on forecasted cash flows discounted to calculate the present value of the cash flows expected to be derived from each group of cash generating units. This approach involves estimates and assumptions about revenue growth rates, operating profit margins and discount rates.

#### ***Why the matter is a key audit matter***

We identified the evaluation of the recoverable amount of groups of cash generating units containing goodwill as a key audit matter. This matter represented a significant risk of material misstatement as minor changes to certain significant assumptions had a significant effect on the estimated recoverable amount of each group of cash generating units. Significant auditor judgment, including specialized skills and



knowledge, was required in evaluating the results of audit procedures over the estimates and assumptions used in the Entity's determination of the recoverable amount.

***How the matter was addressed in the audit***

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

We compared the Entity's historical revenue and operating profit margin forecasts for each group of cash generating units to actual results to assess the Entity's ability to accurately forecast revenue growth rates and operating profit margin assumptions.

We evaluated the appropriateness of the Entity's annual average revenue growth rates and operating profit margin assumptions by comparing those assumptions to industry data, analysts' expectations and/or internal forecasts.

We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the discount rates used by comparing them against discount rate ranges that were independently developed using publicly available market data for comparable entities.

***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 auditor's 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 Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

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

Toronto, Canada

March 19, 2021

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

	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents .....	72,224	84,735
Restricted cash .....	4,219	4,185
Accounts receivable <a href="#">(Note 7)</a> .....	51,851	44,297
Inventories <a href="#">(Note 8)</a> .....	130,867	112,891
Income taxes receivable .....	2,186	1,460
Assets held for sale <a href="#">(Note 9)</a> .....	415	—
Other current assets .....	13,889	14,230
<b>Total current assets</b> .....	<b>275,651</b>	<b>261,798</b>
Property, plant and equipment <a href="#">(Note 9)</a> .....	74,322	94,490
Intangible assets <a href="#">(Note 10)</a> .....	53,653	65,475
Goodwill <a href="#">(Note 11)</a> .....	68,967	98,841
Investments <a href="#">(Note 12)</a> .....	10,045	8,985
Deferred tax assets <a href="#">(Note 20)</a> .....	3,040	805
Other non-current assets .....	864	837
<b>Total non-current assets</b> .....	<b>210,891</b>	<b>269,433</b>
<b>Total assets</b> .....	<b>\$ 486,542</b>	<b>\$ 531,231</b>
 <b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Bank advances and other short-term debt <a href="#">(Note 13)</a> .....	2,428	54
Accounts payable and other accrued charges .....	79,106	56,138
Income taxes payable .....	2,945	4,756
Provisions <a href="#">(Note 26)</a> .....	2,628	—
Lease obligations <a href="#">(Note 14)</a> .....	1,297	1,660
Derivative liability <a href="#">(Note 13)</a> .....	9,428	11,833
Other current liabilities .....	940	85
<b>Total current liabilities</b> .....	<b>98,772</b>	<b>74,526</b>
Employee benefits <a href="#">(Note 25)</a> .....	2,358	2,031
Provisions <a href="#">(Note 26)</a> .....	4,201	5,670
Deferred tax liabilities <a href="#">(Note 20)</a> .....	13,970	15,894
Lease obligations <a href="#">(Note 14)</a> .....	2,243	2,953
Other non-current liabilities .....	1,513	1,524
<b>Total non-current liabilities</b> .....	<b>24,285</b>	<b>28,072</b>
<b>Total liabilities</b> .....	<b>123,057</b>	<b>102,598</b>
Non-controlling interest .....	1,490	3,997
Equity attributable to equity holders of Neo Performance Materials Inc. ....	361,995	424,636
<b>Total equity</b> .....	<b>363,485</b>	<b>428,633</b>
<b>Total liabilities and equity</b> .....	<b>\$ 486,542</b>	<b>\$ 531,231</b>
 Commitments and contingencies <a href="#">(Note 17)</a>		
Subsequent events <a href="#">(Note 30)</a>		

*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)

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Revenue</b> .....	346,692	407,464
<b>Costs of sales</b>		
Costs excluding depreciation and amortization <a href="#">(Note 27)</a> .....	256,928	293,912
Depreciation and amortization .....	9,430	9,965
<b>Gross profit</b> .....	80,334	103,587
<b>Expenses</b>		
Selling, general and administrative <a href="#">(Note 27)</a> .....	53,702	41,935
Share-based compensation <a href="#">(Note 21)</a> .....	1,733	778
Depreciation and amortization .....	7,750	8,032
Research and development .....	13,724	14,326
Impairment of assets .....	59,084	1,014
	135,993	66,085
<b>Operating (loss) income</b> .....	<b>(55,659)</b>	<b>37,502</b>
Other expense .....	(2,318)	(1,492)
Finance cost, net .....	(878)	(2,310)
Foreign exchange loss .....	(651)	(920)
<b>(Loss) income from operations before income taxes and equity income of associates</b> .....	(59,506)	32,780
Income tax expense <a href="#">(Note 20)</a> .....	(1,643)	(10,085)
<b>(Loss) income from operations before equity income of associates</b> .....	(61,149)	22,695
Equity income of associates (net of income tax) <a href="#">(Note 12)</a> .....	1,060	380
<b>Net (loss) income</b> .....	<b>\$ (60,089)</b>	<b>\$ 23,075</b>
<b>Attributable to:</b>		
Equity holders of Neo Performance Materials Inc. ....	\$ (57,931)	\$ 22,920
Non-controlling interest .....	(2,158)	155
	<b>\$ (60,089)</b>	<b>\$ 23,075</b>
<b>(Loss) Earnings per share attributable to equity holders of Neo Performance Materials Inc.:</b>		
Basic <a href="#">(Note 19)</a> .....	\$ (1.54)	\$ 0.59
Diluted <a href="#">(Note 19)</a> .....	\$ (1.54)	\$ 0.59

*See accompanying notes*

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

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Net (loss) income for the period</b> .....	\$ (60,089)	\$ 23,075
<b>Other comprehensive income (loss):</b>		
Item that will not be reclassified subsequently to profit or loss:		
Defined benefit pension plan actuarial loss (net of income tax benefit of \$119; 2019 - \$26) .....	(379)	(84)
Item that is or may be reclassified subsequently to profit or loss:		
Currency translation adjustment .....	9,955	(2,277)
<b>Other comprehensive income (loss) for the period</b> .....	<b>9,576</b>	<b>(2,361)</b>
<b>Total comprehensive (loss) income for the period</b> .....	<b>\$ (50,513)</b>	<b>\$ 20,714</b>
<b>Attributable to:</b>		
Non-controlling interest .....	(2,164)	126
Equity holders of Neo Performance Materials Inc. ....	(48,349)	20,588
	<b>\$ (50,513)</b>	<b>\$ 20,714</b>

*See accompanying notes*

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

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating activities</b>		
Net (loss) income for the period	\$ (60,089)	\$ 23,075
Add (deduct) items not affecting cash:		
Depreciation and amortization	17,180	17,997
Share-based compensation	1,733	778
Provisions <a href="#">(Note 26)</a>	2,083	957
Change in pension liability	327	(94)
Finance costs, net	878	2,310
Equity income of associates <a href="#">(Note 12)</a>	(1,060)	(380)
Loss on disposal of assets	557	241
Income tax expense <a href="#">(Note 20)</a>	1,643	10,085
Foreign exchange loss	(1,422)	(295)
Impairment of assets	59,084	1,014
Restructuring costs	—	756
Other	(443)	177
Net change in non-cash working capital balances related to operations <a href="#">(Note 16)</a>	(1,812)	28,992
Income taxes paid	(8,641)	(14,314)
Interest received, net of interest paid	52	(2)
<b>Cash provided by operating activities</b>	<b>\$ 10,070</b>	<b>\$ 71,297</b>
<b>Investing activities</b>		
Additions of property, plant and equipment	(7,283)	(11,209)
Additions of intangible assets	(331)	(514)
Acquisition through business combination <a href="#">(Note 6)</a>	—	(8,799)
Decrease in restricted cash	252	(2,467)
Other investing activities	—	96
<b>Cash used in investing activities</b>	<b>\$ (7,362)</b>	<b>\$ (22,893)</b>
<b>Financing activities</b>		
Increase in (repayment of) bank advances and other short-term debt, net	2,374	(3,916)
Dividends paid to non-controlling interest	(3,730)	(881)
Dividends paid to equity holders of Neo Performance Materials Inc.	(11,297)	(11,481)
Repurchase of common shares	(3,090)	(16,917)
Lease payments	(1,725)	(1,129)
Other financing activities	(228)	(267)
<b>Cash used in financing activities</b>	<b>\$ (17,696)</b>	<b>\$ (34,591)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>2,477</b>	<b>(93)</b>
<b>Cash (used) provided during the period</b>	<b>(12,511)</b>	<b>13,720</b>
Cash and cash equivalents, beginning of period	84,735	71,015
<b>Cash and cash equivalents, end of period</b>	<b>\$ 72,224</b>	<b>\$ 84,735</b>

*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		Retained Earnings (Deficit)	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains (net of tax)	Accumulated Other Comprehensive (Loss) Income	Equity Attributable to Equity Holders of NPM Inc.	Non-Controlling Interest	Equity
	Number	Amount								
<b>Balance - January 1, 2020</b>	<b>37,798,956</b>	<b>\$ 38</b>	<b>\$ 27,571</b>	<b>\$ 403,765</b>	<b>\$ (7,394)</b>	<b>\$ 656</b>	<b>\$ (6,738)</b>	<b>\$ 424,636</b>	<b>\$ 3,997</b>	<b>\$ 428,633</b>
Net loss	—	—	(57,931)	—	—	—	—	(57,931)	(2,158)	(60,089)
Other comprehensive income (loss)	—	—	—	—	9,961	(379)	9,582	9,582	(6)	9,576
<b>Total comprehensive (loss) income</b>	<b>—</b>	<b>—</b>	<b>(57,931)</b>	<b>—</b>	<b>9,961</b>	<b>(379)</b>	<b>9,582</b>	<b>(48,349)</b>	<b>(2,164)</b>	<b>(50,513)</b>
Adjustment to equity purchased from non-controlling interest	—	—	—	—	—	—	—	—	52	52
Share-based compensation	—	—	—	323	—	—	—	323	—	323
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(11,297)	—	—	—	—	(11,297)	—	(11,297)
Dividend distributions to non-controlling interest	—	—	—	—	—	—	—	—	(395)	(395)
Shares repurchased and canceled under Normal Course Issuer Bid (Note 18)	(396,936)	(1)	—	(3,089)	—	—	—	(3,090)	—	(3,090)
Issuance of common shares for Restricted Share Units exercised	58,370	—	—	(228)	—	—	—	(228)	—	(228)
	(338,566)	(1)	(11,297)	(2,994)	—	—	—	(14,292)	(343)	(14,635)
<b>Balance - December 31, 2020</b>	<b>37,460,390</b>	<b>\$ 37</b>	<b>\$ (41,657)</b>	<b>\$ 400,771</b>	<b>\$ 2,567</b>	<b>\$ 277</b>	<b>\$ 2,844</b>	<b>\$ 361,995</b>	<b>\$ 1,490</b>	<b>\$ 363,485</b>
<b>Balance - January 1, 2019</b>	<b>39,650,340</b>	<b>\$ 40</b>	<b>\$ 16,132</b>	<b>\$ 420,653</b>	<b>\$ (5,146)</b>	<b>\$ 740</b>	<b>\$ (4,406)</b>	<b>\$ 432,419</b>	<b>\$ 4,758</b>	<b>\$ 437,177</b>
Net earnings	—	—	22,920	—	—	—	—	22,920	155	23,075
Other comprehensive (loss) income	—	—	—	—	(2,248)	(84)	(2,332)	(2,332)	(29)	(2,361)
<b>Total comprehensive income (loss)</b>	<b>—</b>	<b>—</b>	<b>22,920</b>	<b>—</b>	<b>(2,248)</b>	<b>(84)</b>	<b>(2,332)</b>	<b>20,588</b>	<b>126</b>	<b>20,714</b>
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 (Note 18)	(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)
<b>Balance - December 31, 2019</b>	<b>37,798,956</b>	<b>\$ 38</b>	<b>\$ 27,571</b>	<b>\$ 403,765</b>	<b>\$ (7,394)</b>	<b>\$ 656</b>	<b>\$ (6,738)</b>	<b>\$ 424,636</b>	<b>\$ 3,997</b>	<b>\$ 428,633</b>

*See accompanying notes*

**NEO PERFORMANCE MATERIALS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(tabular figures in thousands of United States dollars, unless otherwise stated)

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**NOTE 1            NATURE OF OPERATIONS**

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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 at December 31, 2020.

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

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

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

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

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

***Magnequench***

The Magnequench segment, with more than 30 years of manufacturing experience, is the world leader in the production of magnetic powders used in bonded and hot-deformed, fully dense neodymium-iron-boron ("**NdFeB**" or "**neo**") magnets. These powders are formed through Magnequench's market-leading technology related to the development, processing, and manufacturing of neo magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench Powder using a blend of various inputs. Magnequench also manufactures magnets using these bonded magnetic powders. These powders and bonded permanent magnets are used in micro motors for

household applications like vacuum cleaners, refrigerators, hair dryers, air conditioners and residential heating and cooling circulation pumps, industrial and other sensors, motors used in various automotive applications for hybrid, electric, and internal combustion engine vehicles, and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

### ***C&O***

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

### ***Rare Metals***

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

### ***Corporate***

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

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## **NOTE 2      GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS**

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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 19, 2021.

### **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.

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**NOTE 3 BASIS OF PREPARATION**

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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.

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**NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**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, 2020.

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

**4.2 Basis of Consolidation****4.2.1 Business Combinations**

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

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

**4.2.2 Subsidiaries and associates**

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

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

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

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

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

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

Outlined below is information related to the Neo's subsidiaries and associates at December 31, 2020:

	<b>Place of Business</b>	<b>Entity Type</b>	<b>Economic Interest</b>	<b>Method</b>
Neo Cayman Holdings Ltd. ....	Cayman Islands	Subsidiary	100%	Consolidation
Neo Performance Materials ULC .....	Canada	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides, LLC .....	United States	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides (Europe) Ltd. ....	United Kingdom	Subsidiary	100%	Consolidation
Neo Rare Metals (Korea) Inc. ....	South Korea	Subsidiary	80%	Consolidation
Neo International Corp. ....	Barbados	Subsidiary	100%	Consolidation
Jiangyin Jiahua Advanced Material Resources Co., Ltd. ....	China	Subsidiary	95%	Consolidation
Neo Japan, Inc. ....	Japan	Subsidiary	100%	Consolidation
Neo Performance Materials (Singapore) Pte. Ltd. ....	Singapore	Subsidiary	100%	Consolidation
Zibo Jiahua Advanced Material Resources Co., Ltd. <sup>(1)</sup> .....	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. <sup>(1)</sup> (Note 30) .....	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



	<b>Place of Business</b>	<b>Entity Type</b>	<b>Economic Interest</b>	<b>Method</b>
Neo Performance Materials (Beijing) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench International Trading (Tianjin) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench GmbH	Germany	Subsidiary	100%	Consolidation
Neo Performance Materials Korea Inc.	South Korea	Subsidiary	100%	Consolidation
Neo US Holdings, Inc.	Canada	Subsidiary	100%	Consolidation
Neo Magnequench Distribution, LLC	United States	Subsidiary	100%	Consolidation
Magnequench Magnetics (Chu Zhou) Co., Ltd.	China	Subsidiary	100%	Consolidation
Neo Jia Hua Advanced Materials (Zibo) Co., Ltd.	China	Subsidiary	98%	Consolidation
Neo Water Treatment LLC	United States	Subsidiary	100%	Consolidation
Zibo Shijia Trading Co., Ltd. <sup>(2)</sup>	China	Subsidiary	59.6%	Consolidation
Toda Magnequench Magnetic Material (Tianjin) Co., Ltd.	China	Joint venture	33%	Equity method
Gan Zhou Ke Li Rare Earth New Material	China	Joint venture	25%	Equity method
GQD Special Material (Thailand) Co., Ltd.	Thailand	Joint venture	20%	Equity method

**Notes:**

- (1) On December 18, 2020, Neo entered into an equity transfer agreement with Jia Cheng Rare Metals Technology (Hainan) Co., Ltd. ("**JCRMT**"), a non-related party, to sell Neo's entire holdings of Shanxi's equity (60% of the equity interest of Shanxi) for a total gross proceeds of \$0.1 million. The transaction was completed on January 26, 2021.
- (2) 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, magnetic powders, magnets, and rare metal-based functional materials to third parties. Delivery of the rare earth, magnetic powders, magnets, and rare metal-based functional materials are considered the only performance obligation. Transaction prices are based on the selling prices of the goods agreed with the customers. Control generally transfers when the goods are delivered and have been accepted by customers.

#### **4.6 Operating expenses**

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

#### **4.7 Goodwill**

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

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

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

#### **4.8 Property, plant and equipment**

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

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

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

Reviews for impairment of properties in production and under development are conducted on an at least an annual basis to determine whether or not there are indicators that the carrying amount may exceed the recoverable amount. The carrying values of property, plant and equipment, if they are determined to exceed their recoverable amounts, are written down to their recoverable amount and the impairment charge is 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, 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.

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

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

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

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

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

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

#### **4.13 Inventories**

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

#### **4.14 Income taxes**

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

##### **4.14.1 Current tax**

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

##### **4.14.2 Deferred tax**

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

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

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

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

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

#### **4.15 Cash and cash equivalents**

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

#### **4.16 Employee future benefits**

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

##### ***4.16.1 Defined benefit plan***

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

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

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

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

##### ***4.16.2 Defined contribution benefits***

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

#### **4.17 Share-based compensation**

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

##### ***4.17.1 Equity-settled share-based plans***

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

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

##### ***4.17.2 Cash-settled share-based plans***

The cost of cash-settled share-based compensation is recognized in 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 21](#). 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 recoverable amount, management estimates expected future cash flows from each asset or CGU and determines a suitable discount rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to Neo's assets in future periods. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

#### **4.18.3 Business combinations**

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

#### **4.18.4 Useful lives of depreciable assets**

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

#### **4.18.5 Inventories**

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

#### **4.18.6 Provisions**

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

and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

#### **4.18.7 *Defined benefit pension liability***

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

#### **4.18.8 *Fair value of financial instruments***

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

#### **4.18.9 *Share-based compensation***

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

#### **4.18.10 *Measurement uncertainty***

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

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

#### **4.19 Government grants**

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

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### **NOTE 5 RECENT ACCOUNTING PRONOUNCEMENTS**

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

#### **5.1 COVID-19-Related Rent Concessions (Amendment to IFRS 16)**

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

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

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

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

#### **5.2 Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)**

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

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

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

#### **5.3 Onerous Contracts - Costs of Fulfilling a Contract (Amendments to IAS 37)**

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

- incremental costs of fulfilling that contract, for example direct labour and materials; and

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

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

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

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

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

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

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

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## NOTE 6 BUSINESS COMBINATION

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### 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 purchase price of \$9.5 million was allocated as follows:

Inventories .....	\$ 392
Property, plant and equipment .....	5,432
Intangible assets .....	3,676
Goodwill .....	152
Accounts payable and other accrued charges .....	(154)
<b>Total</b> .....	<b>\$ 9,498</b>

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 was released and paid to the selling shareholders of SAMAG after the closing date of the business combination in January 2020.

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. 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 receivable or payable 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:

	<b>Combined results</b>
<b>For the year ended December 31, 2019:</b>	
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.

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**NOTE 7      ACCOUNTS RECEIVABLE**

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Neo uses the simplified provision matrix for calculating expected credit 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.

Neo reviews all amounts periodically for indicators of impairment and where applicable the amounts impaired have been provided for in the loss allowance. The life-time expected credit loss for the year ended December 31, 2020 was nominal.

Neo's exposure to credit risks and impairment losses related to accounts receivable is disclosed in [Note 28](#).

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**NOTE 8            INVENTORIES**

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Raw materials .....	\$ 46,404	\$ 37,228
Work-in-progress .....	28,151	24,612
Finished goods .....	47,713	42,104
Supplies .....	8,599	8,947
<b>Total</b> .....	<b>\$ 130,867</b>	<b>\$ 112,891</b>

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

For the year ended December 31, 2020, a total of \$249.5 million of inventories was included in cost of sales compared to \$287.5 million for the year ended December 31, 2019. These include provisions for inventories in the amount of \$4.7 million and \$2.8 million for years ended December 31, 2020 and December 31, 2019, respectively.

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**NOTE 9                      PROPERTY, PLANT AND EQUIPMENT**


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	Land	Building & improvements	Machinery & Equipment	Right-of-use Assets	Office equipment	Construction in Progress (net of transfer)	Total
<b>At January 1, 2020</b>							
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)
<b>Opening net book value at January 1, 2020 .....</b>	<b>\$ 2,645</b>	<b>\$ 29,294</b>	<b>\$ 44,548</b>	<b>\$ 4,694</b>	<b>\$ 3,160</b>	<b>\$ 10,149</b>	<b>\$ 94,490</b>
Additions .....	—	9	1,192	584	490	5,592	7,867
Write-offs, net of cost and accumulated depreciation	—	(63)	(236)	(64)	(23)	(134)	(520)
Transfers <sup>(1)</sup> .....	(95)	4,060	2,857	—	942	(8,179)	(415)
Currency translation adjustments .....	—	646	976	64	171	50	1,907
Impairment (Note 11) .....	—	(9,158)	(4,231)	—	—	(3,284)	(16,673)
Depreciation expense .....	—	(2,326)	(7,669)	(1,518)	(821)	—	(12,334)
<b>Closing net book value at December 31, 2020 .....</b>	<b>\$ 2,550</b>	<b>\$ 22,462</b>	<b>\$ 37,437</b>	<b>\$ 3,760</b>	<b>\$ 3,919</b>	<b>\$ 4,194</b>	<b>\$ 74,322</b>

**Comprised of:**

Cost .....	\$ 2,550	\$ 34,519	\$ 71,647	\$ 6,142	\$ 7,105	\$ 4,194	\$126,157
Accumulated depreciation	—	(12,057)	(34,210)	(2,382)	(3,186)	—	(51,835)

**Notes:**

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

	<b>Land</b>	<b>Building &amp; improvements</b>	<b>Machinery &amp; Equipment</b>	<b>Right-of-use Assets</b>	<b>Office equipment</b>	<b>Construction in Progress (net of transfer)</b>	<b>Total</b>
<b>At January 1, 2019</b>							
Cost .....	\$ 3,150	\$ 36,256	\$ 61,726	\$ —	\$ 3,913	\$ 10,209	\$115,254
Accumulated depreciation	—	(7,012)	(19,571)	—	(1,708)	—	(28,291)
<b>Opening net book value at January 1, 2019</b> .....	<b>\$ 3,150</b>	<b>\$ 29,244</b>	<b>\$ 42,155</b>	<b>\$ —</b>	<b>\$ 2,205</b>	<b>\$ 10,209</b>	<b>\$ 86,963</b>
IFRS 16 - Leases .....	—	—	—	5,066	—	—	5,066
Acquisition through Business Combination .....	—	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 <sup>(1)</sup> .....	(505)	(459)	—	—	—	—	(964)
Depreciation expense .....	—	(2,810)	(8,171)	(1,494)	(516)	—	(12,991)
<b>Closing net book value at December 31, 2019</b> .....	<b>\$ 2,645</b>	<b>\$ 29,294</b>	<b>\$ 44,548</b>	<b>\$ 4,694</b>	<b>\$ 3,160</b>	<b>\$ 10,149</b>	<b>\$ 94,490</b>
<b>Comprised of:</b>							
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.



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**NOTE 10      INTANGIBLE ASSETS**


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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:

	<b>Customer Relationships</b>	<b>License Agreements and Patents</b>	<b>Tradename</b>	<b>Total</b>
<b>At January 1, 2020</b>				
Cost .....	\$ 71,328	\$ 4,031	\$ 6,000	\$ 81,359
Accumulated amortization .....	(15,450)	(434)	—	(15,884)
<b>Opening net book value at January 1, 2020</b> ..	<b>\$ 55,878</b>	<b>\$ 3,597</b>	<b>\$ 6,000</b>	<b>\$ 65,475</b>
Additions .....	—	331	—	331
Disposals .....	—	(101)	—	(101)
Impairment <a href="#">(Note 11)</a> .....	(9,460)	—	—	(9,460)
Currency translation adjustments .....	2,106	148	—	2,254
Amortization expense .....	(4,422)	(424)	—	(4,846)
<b>Closing net book value at December 31, 2020</b>	<b>\$ 44,102</b>	<b>\$ 3,551</b>	<b>\$ 6,000</b>	<b>\$ 53,653</b>
<b>Comprised of:</b>				
Cost .....	\$ 61,692	\$ 4,430	\$ 6,000	\$ 72,122
Accumulated amortization .....	(17,590)	(879)	—	(18,469)
	<b>Customer Relationships</b>	<b>License agreements</b>	<b>Tradename</b>	<b>Total</b>
<b>At January 1, 2019</b>				
Cost .....	\$ 70,748	\$ 1,154	\$ 6,000	\$ 77,902
Accumulated amortization .....	(11,005)	(176)	—	(11,181)
<b>Opening net book value at January 1, 2019</b> ..	<b>\$ 59,743</b>	<b>\$ 978</b>	<b>\$ 6,000</b>	<b>\$ 66,721</b>
Acquisition through business combination .....	1,329	2,347	—	3,676
Additions .....	—	514	—	514
Currency translation adjustments .....	(444)	14	—	(430)
Amortization expense .....	(4,750)	(256)	—	(5,006)
<b>Closing net book value at December 31, 2019</b>	<b>\$ 55,878</b>	<b>\$ 3,597</b>	<b>\$ 6,000</b>	<b>\$ 65,475</b>
<b>Comprised of:</b>				
Cost .....	\$ 71,328	\$ 4,031	\$ 6,000	\$ 81,359
Accumulated amortization .....	(15,450)	(434)	—	(15,884)

**NOTE 11 GOODWILL**

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Opening balance as at January 1 .....	\$ 98,841	\$ 99,365
Impairment .....	(32,951)	—
Acquisition through business combination .....	—	152
Currency translation adjustments .....	3,077	(676)
<b>Ending balance .....</b>	<b>\$ 68,967</b>	<b>\$ 98,841</b>

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

1. **The annual average revenue growth rate** is determined based on management's past experience in the industry and cash flow forecasts, and ranged from 0.2% to 4.3% based on Neo's five-year financial plan. The cash flow forecasts at the end of the planning period were extrapolated using estimated long-term growth rates in the range of 1.4% to 4.0%.
2. **The discount rate** is determined in order to calculate the present value of the projected cash flows of the groups of CGUs. The pre-tax discount rates ranged from 12.4% to 15.5% for Neo's groups of CGUs at June 30, 2020 and 12.5% to 16.9% at December 31, 2019.

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

	<b>December 31, 2020</b>	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Magnequench .....	\$ 68,967	\$ 65,334	\$ 65,888
Chemicals & Oxides .....	—	16,668	16,667
Rare Metals .....	—	16,283	16,286
<b>Total goodwill allocated .....</b>	<b>\$ 68,967</b>	<b>\$ 98,285</b>	<b>\$ 98,841</b>

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

	<b>December 31, 2020</b>	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Magnequench .....	\$ 6,000	\$ 6,000	\$ 6,000

As a result of impairment testing performed as at June 30, 2020, the recoverable amount exceeded the carrying amount of the Magnequench segment. For the C&O and the Rare Metals segments, the carrying amount exceeded

the recoverable amount by \$35.1 million and \$24.0 million respectively. As a result, Neo recorded an impairment charge for the year ended December 31, 2020 as follows:

	<b>Chemicals &amp; Oxides</b>	<b>Rare Metals</b>	<b>Total</b>
Goodwill .....	\$ 16,668	\$ 16,283	\$ 32,951
Intangible assets .....	6,339	3,121	9,460
Property, plant and equipment .....	12,057	4,616	16,673
<b>Total .....</b>	<b>\$ 35,064</b>	<b>\$ 24,020</b>	<b>\$ 59,084</b>

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

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## NOTE 12 INVESTMENTS

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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.

	<b>Country of Incorporation or Registration</b>	<b>Percentage Share Holdings</b>
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, 2020 and December 31, 2019 is provided below.

### For the year ended December 31, 2020:

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

**For the year ended December 31, 2019:**

	<u>TMT</u>	<u>Keli</u>	<u>GQD</u>	<u>Total</u>
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

**As at December 31, 2020:**

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

**As at December 31, 2019:**

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

Investments accounted for using the equity method are as follows:

	<u>TMT</u>	<u>Keli</u>	<u>GQD</u>	<u>Total</u>
Carrying value at January 1, 2020 ..	\$ 1,866	\$ 6,490	\$ 629	\$ 8,985
Share of results in associates .....	100	683	277	1,060
<b>Carrying value at December 31, 2020 .....</b>	<b>\$ 1,966</b>	<b>\$ 7,173</b>	<b>\$ 906</b>	<b>\$ 10,045</b>
Carrying value at January 1, 2019 ..	\$ 1,745	\$ 6,404	\$ 456	\$ 8,605
Share of results in associates .....	121	86	173	380
<b>Carrying value at December 31, 2019 .....</b>	<b>\$ 1,866</b>	<b>\$ 6,490</b>	<b>\$ 629</b>	<b>\$ 8,985</b>

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**NOTE 13 CATEGORIES OF FINANCIAL INSTRUMENTS**

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

<b><u>Financial Assets</u></b>	<b><u>December 31, 2020</u></b>	<b><u>December 31, 2019</u></b>
<b>Measured at amortized cost <sup>(1)</sup></b>		
Cash and cash equivalents .....	\$ 72,224	\$ 84,735
Restricted cash .....	4,219	4,185
Accounts receivable .....	51,851	44,297
<b>Total financial assets</b> .....	<b><u>\$ 128,294</u></b>	<b><u>\$ 133,217</u></b>
<b><u>Financial Liabilities</u></b>	<b><u>December 31, 2020</u></b>	<b><u>December 31, 2019</u></b>
<b>Fair value through profit or loss</b>		
Put option issued to non-controlling interest of Buss & Buss (Derivative liability) .....	\$ 9,428	\$ 11,833
<b>Measured at amortized cost <sup>(1)</sup></b>		
Current:		
Bank advances and other short-term debt .....	2,428	54
Accounts payable and other accrued charges .....	79,106	56,138
	<u>\$ 81,534</u>	<u>\$ 56,192</u>
<b>Total financial liabilities</b> .....	<b><u>\$ 90,962</u></b>	<b><u>\$ 68,025</u></b>

**Notes:**

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

**13.1 Derivative liability**

As at December 31, 2020, Neo's derivative liability is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss Spezialmetalle GmbH ("**Buss & Buss**"). The Buss & Buss put option is related to a share purchase agreement ("**SPA**") between NMT Holdings GmbH, a German subsidiary of Neo, and the shareholders of Buss & Buss entered into on May 27, 2010. The SPA includes a call and a put option on shares of the remaining shareholder or his legal successors. If the call option is exercised by Neo, a premium is added to the consideration to purchase the underlying shares in Buss & Buss. If the put option is exercised by the non-controlling interest, a discount will reduce the cost basis of the securities sold to Neo. Although, the final amount of the put option is not known, the initial fair value of this obligation was determined by a third-party valuator based on information available at that time. The put option liability is subsequently re-measured at each reporting period based on 90% of the fair value and the change in the put option liability is recorded in the consolidated statements of profit or loss.

For the year ended December 31, 2020, Buss & Buss declared and paid \$6.7 million (Euro 6.0 million) (2019: nil) of dividends to its shareholders (NMT Holdings GmbH and a non-controlling interest), respectively. In accordance with IAS 32, Neo has elected to record the dividend paid to its non-controlling interest of \$3.3 million as a finance expense for the year ended December 31, 2020.

For the year ended December 31, 2020, the re-measurement of the put option resulted in a \$2.4 million decrease to the put option liability due to an increase of \$0.6 million related to changes in fair value assumptions and a decrease of \$3.0 million related to the dividends paid. The \$2.4 million decrease in the fair value of the put option liability was recorded as finance income for the year ended December 31, 2020.

For the year ended December 31, 2019, the re-measurement of the put option resulted in a \$2.3 million increase to the put option liability due to changes in fair value assumptions which was recorded as finance expense for the year ended December 31, 2019.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial Liabilities:</b>			
Put option issued to non-controlling interest of Buss & Buss .....	\$ —	\$ —	\$ 9,428

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

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

There have been no transfers between levels for the period ended December 31, 2020.

### 13.3 Bank advances, short-term loan and debt

#### 13.3.1 Chinese bank advances

As of December 31, 2020, there is no amount outstanding on the line of credit in China.

#### 13.3.2 German debt facility

As at December 31, 2020, Buss & Buss has a \$6.8 million (€5.5 million) revolving line of credit which can be drawn either in Euros or U.S. dollars. The bank is entitled to revise the interest rate if the three-month Euro Interbank Offered Rate ("Euribor") average rate changes by more than 0.25%, up to a maximum of 0.1% plus the actual change in average rate.

The security for the revolving line of credit includes a directly enforceable guarantee of the non-controlling shareholder of Buss & Buss amounting to \$0.31 million (€0.25 million) as well as a lien amounting to \$0.61 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, 2020, \$2.4 million (€2.0 million) was drawn from the revolving line of credit.

There are no financial covenants which need to be met.

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**NOTE 14      LEASES**

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**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 .....	1,460
One to five years .....	2,345
More than five years .....	52
<b>Total undiscounted lease liabilities at December 31, 2020 .....</b>	<b>\$      3,857</b>

**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, 2020:

Interest on lease liabilities .....	224
Expenses relating to short-term leases .....	45
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets .....	5

## NOTE 15 OPERATING SEGMENTS

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

A comparative breakdown of business segment information is as follows:

### For the year ended December 31, 2020:

	<b>Magnequench</b>	<b>Chemicals &amp; Oxides</b>	<b>Rare Metals</b>	<b>Corporate</b>	<b>Total for reportable segments</b>	<b>Eliminations</b>	<b>Total</b>
External revenue	\$ 152,966	\$ 134,038	\$ 59,688	\$ —	\$ 346,692	\$ —	\$ 346,692
Inter-segment revenue	—	9,284	—	—	9,284	(9,284)	—
<b>Total revenue</b>	<b>\$ 152,966</b>	<b>\$ 143,322</b>	<b>\$ 59,688</b>	<b>\$ —</b>	<b>\$ 355,976</b>	<b>\$ (9,284)</b>	<b>\$ 346,692</b>
<b>Net Income (loss)</b>	<b>\$ 16,437</b>	<b>\$ (25,039)</b>	<b>\$ (32,991)</b>	<b>\$ (18,082)</b>	<b>\$ (59,675)</b>	<b>\$ (414)</b>	<b>\$ (60,089)</b>
Finance cost (income), net	30	(141)	1,096	(107)	878	—	878
Income tax expense (recovery)	4,318	(2,256)	(391)	(28)	1,643	—	1,643
Depreciation and amortization included in Costs of Sales	3,181	3,042	3,207	—	9,430	—	9,430
Depreciation and amortization included in operating expenses	5,760	1,260	394	336	7,750	—	7,750
<b>EBITDA</b>	<b>\$ 29,726</b>	<b>\$ (23,134)</b>	<b>\$ (28,685)</b>	<b>\$ (17,881)</b>	<b>\$ (39,974)</b>	<b>\$ (414)</b>	<b>\$ (40,388)</b>

### Reconciliation to Adjusted EBITDA:

EBITDA	\$ 29,726	\$ (23,134)	\$ (28,685)	\$ (17,881)	\$ (39,974)	\$ (414)	\$ (40,388)
Other (income) expense	(138)	676	1,729	51	2,318	—	2,318
Foreign exchange loss (gain)	440	255	551	(595)	651	—	651
Equity income of associates	(1,060)	—	—	—	(1,060)	—	(1,060)
Share and value-based compensation <sup>(1)</sup>	960	1,089	196	1,999	4,244	—	4,244
Impairment of assets <sup>(2)</sup>	—	35,064	24,020	—	59,084	—	59,084
Other costs <sup>(3)</sup>	—	—	—	4,025	4,025	—	4,025
<b>Adjusted EBITDA<sup>(4)</sup></b>	<b>\$ 29,928</b>	<b>\$ 13,950</b>	<b>\$ (2,189)</b>	<b>\$ (12,401)</b>	<b>\$ 29,288</b>	<b>\$ (414)</b>	<b>\$ 28,874</b>
Capital expenditures	\$ 5,148	\$ 1,526	\$ 940	\$ —	\$ 7,614	\$ —	\$ 7,614

### Notes:

- (1) Represents share and value-based compensation expense in respect of the Legacy Plan (Note 21), 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 expense of \$2.5 million is included in selling, general, and administration expense for the year ended December 31, 2020.



- (2) The negative economic impacts of COVID-19 were determined to be an impairment indicator during the second quarter of 2020 for all of Neo's groups of CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's groups of CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of \$59.1 million for the year ended December 31, 2020, with \$35.1 million attributable to the C&O segment and \$24.0 million attributable to the Rare Metals segment. No impairment was recorded against the Magnequench segment.
- (3) Represents primarily legal, professional advisory fees and other transaction costs incurred/(recovered) with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.
- (4) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.

### For the year ended December 31, 2019:

	Magnequench	Chemicals & 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)	—
<b>Total revenue</b>	<b>\$ 173,800</b>	<b>\$ 158,226</b>	<b>\$ 90,622</b>	<b>\$ —</b>	<b>\$ 422,648</b>	<b>\$ (15,184)</b>	<b>\$ 407,464</b>
<b>Net Income (loss)</b>	<b>\$ 23,628</b>	<b>\$ 13,102</b>	<b>\$ (4,202)</b>	<b>\$ (10,203)</b>	<b>\$ 22,325</b>	<b>\$ 750</b>	<b>\$ 23,075</b>
Finance cost (income), net	60	(151)	2,581	(180)	2,310	—	2,310
Income tax expense	6,291	1,984	1,939	(129)	10,085	—	10,085
Depreciation and amortization included in Costs of Sales	2,486	3,517	3,962	—	9,965	—	9,965
Depreciation and amortization included in operating expenses	5,554	1,558	582	338	8,032	—	8,032
<b>EBITDA</b>	<b>\$ 38,019</b>	<b>\$ 20,010</b>	<b>\$ 4,862</b>	<b>\$ (10,174)</b>	<b>\$ 52,717</b>	<b>\$ 750</b>	<b>\$ 53,467</b>

### Reconciliation to Adjusted EBITDA:

EBITDA	\$ 38,019	\$ 20,010	\$ 4,862	\$ (10,174)	\$ 52,717	\$ 750	\$ 53,467
Other (income) expense	(170)	2,802	(1,199)	59	1,492	—	1,492
Foreign exchange (gain) loss	(442)	617	497	248	920	—	920
Equity income of associates	(380)	—	—	—	(380)	—	(380)
Share and value-based compensation <sup>(1)</sup>	(267)	(672)	(157)	266	(830)	—	(830)
Impairment of assets <sup>(2)</sup>	—	—	1,014	—	1,014	—	1,014
Other costs (recoveries) <sup>(3)</sup>	293	115	115	(2,450)	(1,927)	—	(1,927)
<b>Adjusted EBITDA<sup>(4)</sup></b>	<b>\$ 37,053</b>	<b>\$ 22,872</b>	<b>\$ 5,132</b>	<b>\$ (12,051)</b>	<b>\$ 53,006</b>	<b>\$ 750</b>	<b>\$ 53,756</b>
Capital expenditures <sup>(5)</sup>	\$ 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 (Note 21) and a long-term value bonus plan computed in the same manner as the share-based plan and is settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value-based compensation recovery of \$1.6 million was included in selling, general, and administration expense for the year ended December 31, 2019.
- (2) The \$1.0 million impairment in the Rare Metals division 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) 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 of Neo for a combination of cash and stock (the "**Luxfer Transaction**"). On March 10, 2019, Luxfer and Neo mutually agreed to terminate the Luxfer Transaction. The other costs represents legal, professional advisory fees and other transaction costs incurred netted with the amounts recoverable from Luxfer for the termination of the Luxfer Transaction. These net recoveries were included in selling, general, and administration expense.
- (4) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.
- (5) Capital expenditures includes \$9.3 million related to the assets acquired through a business combination.

#### As at December 31, 2020:

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

#### As at December 31, 2019:

	<u>Magnequench</u>	<u>Chemicals &amp; Oxides</u>	<u>Rare Metals</u>	<u>Corporate</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
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)

The geographic distribution of Neo's revenue based on the location of its customers for the year ended December 31, 2020 and 2019 are summarized as follows:

<u>Revenue</u>	<u>Year Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Asia:		
China .....	\$ 121,517	\$ 126,532
Japan .....	68,435	63,747
Thailand .....	12,918	14,499
South Korea .....	5,804	9,828
North America .....	48,652	87,430
Europe .....	78,896	97,575
Other .....	10,470	7,853
<b>Total</b> .....	<b>\$ 346,692</b>	<b>\$ 407,464</b>

Revenue from one significant customer accounted for \$50.7 million and \$61.4 million of Neo's total revenue for the year ended December 31, 2020 and December 31, 2019, respectively. Neo defines significant customers as those that generates 10% or more of consolidated revenue.

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Asia:		
China .....	44,997	53,509
Singapore .....	2,680	2,746
Thailand .....	6,202	6,898
North America .....	12,112	12,540
Europe .....	15,687	25,228
Other .....	3,553	3,391
<b>Total</b> .....	<b>\$ 85,231</b>	<b>\$ 104,312</b>

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## NOTE 16 SUPPLEMENTAL CASH FLOW INFORMATION

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

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Decrease (increase) in assets:		
Accounts receivable .....	\$ (6,613)	\$ 5,237
Inventories .....	(15,542)	23,050
Other assets .....	512	5,938
Increase (decrease) in liabilities:		
Accounts payable and other accrued charges .....	19,246	(4,537)
Other liabilities .....	585	(696)
<b>Total net change</b> .....	<b>\$ (1,812)</b>	<b>\$ 28,992</b>

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## NOTE 17 COMMITMENTS AND CONTINGENCIES

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### 17.1 Commitments

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

## 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, the People's Republic of China, and Estonia. Additionally, Neo has initiated proceedings to invalidate certain patents of Neo's competitors issued in these same jurisdictions.

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Patent Reference</u>	<u>Jurisdiction of Claim</u>	<u>Specified Damages by Claimant</u>
Chinese patent ZL 03817110.4	China	\$3.1 million
Chinese patent ZL 200710146613.6	China	\$2.3 million
European patent 0863846 B1	Germany	} \$8.7 million
European patent 0735984 B1	Germany	
European patent 0605274 B1	Germany	
Chinese patent ZL 96196505.3	China	\$6.9 million
European Patent EP 3009403	Estonia	\$0.1 million
European & UK patents 1435338 B1	UK	Not specified
European & UK patents 1435338 B1	Germany	Not specified
European patent 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified
European patent 2523907	Germany	Not specified

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

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

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

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**NOTE 18      SHARE CAPITAL**

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	<u>December 31, 2020</u>	<u>December 31, 2019</u>
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 .....	37,460,390	37,798,956
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 May 14, 2020, Neo announced that the TSX had accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**Bid**") for up to 1,883,637 of its issued and outstanding common shares. In connection with the Bid, Neo has entered into an automatic share purchase plan with its designated broker to allow for purchases of its shares (the "**Share Purchase Plan**"). The Share Purchase Plan is considered an "automatic plan" for purposes of applicable Canadian securities laws. Under the Share Purchase Plan, Neo's broker may purchase shares on any trading day during the Bid, including during self-imposed trading blackout periods. The price that Neo will pay for any shares purchased under the Bid will be the prevailing market price at the time of purchase. Any shares purchased by Neo will be canceled. The Share Purchase Plan will terminate on May 18, 2021. A previously announced normal course issuer bid expired on March 23, 2020.

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

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**NOTE 19 EARNINGS PER SHARE**

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**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, 2020, and December 31, 2019. The weighted average number of shares outstanding is calculated as follows:

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Common shares issued at beginning of period .....	37,798,956	39,650,340
Weighted average impact of:		
Issuance of common shares .....	22,703	16,568
Repurchase and cancellation of common shares under Normal Course Issuer Bid .....	(191,696)	(845,261)
<b>Weighted average number of common shares for the period - basic ...</b>	<b>37,629,963</b>	<b>38,821,647</b>

**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:

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Net (loss) income attributable to equity holders of Neo Performance Materials Inc. - basic and diluted .....	\$ (57,931)	\$ 22,920

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Weighted average number of common shares - basic .....	37,629,963	38,821,647
Dilutive effect of Stock Units .....	—	141,368
<b>Weighted average number of common shares - diluted .....</b>	<b>37,629,963</b>	<b>38,963,015</b>

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
(Loss) Earnings per share - basic .....	\$ (1.54)	\$ 0.59
(Loss) Earnings per share - diluted .....	\$ (1.54)	\$ 0.59

Under the terms of the Legacy Plan ([Note 21](#)), certain stock-based awards will vest upon Oaktree owning less than 51% of the total outstanding common shares of Neo. The completion of the February 2021 bought deal secondary offering of common shares of Neo, as outlined in [Note 1](#), constituted a liquidity event under the Legacy Plan. As a result, 423,875 equity-settled PSUs, 13,335 cash-settled PSUs, 1,445 equity-settled RSUs and 3,516 cash-settled



RSUs will vest, while 211,941 equity settled PSUs and 6,667 cash-settled PSUs will be cancelled in the first quarter of 2021.

There is no impact to the calculation of (loss) earnings per share or diluted (loss) earnings per share for the year ended December 31, 2020, as the vested PSUs and RSUs are anti-dilutive.

For the year ended December 31, 2020, 703,879 equity-settled PSUs were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive. For the year ended December 31, 2019, 915,816 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 as at December 31, 2019.

For the year ended December 31, 2020, 1,445 (2019: nil) equity-settled RSUs, were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

For the year ended December 31, 2020, 1,186,541 (2019: nil) stock options were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

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**NOTE 20      INCOME TAXES**

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**20.1      Income Tax Expense**

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Current tax expense (benefit)</b>		
Current year .....	\$     6,300	\$    11,794
Adjustments in respect of prior years .....	(72)	(283)
Total current tax expense .....	6,228	11,511
<b>Deferred tax expense (benefit)</b>		
Origination and reversal of temporary differences .....	(4,585)	(1,426)
<b>Total income tax expense</b> .....	<b>\$     1,643</b>	<b>\$    10,085</b>

## 20.2 Reconciliation of effective tax rate

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
(Loss) Income from operations before taxes and equity income of associates .....	(59,506)	32,780
Income tax expense (benefit) at Neo's statutory income tax rate of 26.5% (2019 - 26.5%) .....	(15,769)	8,687
Impact of countries with different tax rates .....	5,858	(1,837)
Losses and deductible temporary differences for which no deferred tax asset has been recognized .....	4,234	1,144
Current tax benefit with respect to prior years .....	(72)	(283)
Foreign withholding taxes .....	1,799	2,154
Deferred tax expense (benefit) on foreign exchange translation of non-monetary items .....	(805)	(200)
Expenses not deductible for tax purposes .....	6,449	394
Other .....	(51)	26
<b>Total income tax expense</b> .....	<b>\$ 1,643</b>	<b>\$ 10,085</b>

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

## 20.3 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:

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Deductible temporary differences .....	\$ 33,755	\$ 31,220
Tax losses .....	167,778	151,648
	<b>\$ 201,533</b>	<b>\$ 182,868</b>

Tax losses for which no deferred tax asset was recognized that will not expire totaled \$4.1 million while \$91.5 million expire between 2021 and 2024 and \$72.2 million expire between 2025 and 2040.

## 20.4 Unrecognized deferred tax liabilities

At December 31, 2020 taxable temporary differences of \$38.7 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.

## 20.5 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Deferred Tax Assets		
Inventory .....	\$ 2,302	\$ 2,095
Property, plant and equipment and intangible assets .....	660	10
Accrued charges .....	31	14
Deferred compensation and retirement benefits .....	368	135
Net operating losses .....	—	433
Other .....	1,797	1,671
Deferred Tax Liabilities		
Inventory .....	(394)	(462)
Property, plant and equipment and intangible assets .....	(10,190)	(14,717)
Foreign subsidiary earnings and withholding tax .....	(5,230)	(4,056)
Other .....	(274)	(212)
<b>Deferred tax liabilities - net</b> .....	<b>\$ (10,930)</b>	<b>\$ (15,089)</b>

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:

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Deferred tax assets .....	\$ 3,040	\$ 805
Deferred tax liabilities .....	(13,970)	(15,894)
<b>Deferred tax liabilities - net</b> .....	<b>\$ (10,930)</b>	<b>\$ (15,089)</b>

Movement in net deferred tax liabilities:

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Balance at the beginning of the period .....	\$ (15,089)	\$ (16,651)
Recognized in profit or loss .....	4,585	1,426
Other .....	(426)	136
<b>Balance at the end of the period</b> .....	<b>(10,930)</b>	<b>(15,089)</b>

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## NOTE 21 SHARE-BASED COMPENSATION

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

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

In connection with the Arrangement, Neo has undertaken to issue common shares of Neo underlying the Stock Units, applying the exchange ratio applied in connection with the Arrangement. On October 13, 2017, Neo adopted a Stock Option Plan, in conjunction with the Initial Public Offering. On May 9, 2018, Neo adopted a long-term incentive plan (the "**LTIP**"). Neo granted Options under the Stock Option Plan, Deferred Share Units ("**DSUs**") under the Directors Share Unit Plan, and RSUs, PSUs and Additional PSUs under the LTIP.

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

<b>Equity-settled share-based compensation</b>	<b>Options</b>	<b>RSUs</b>	<b>PSUs</b>
<b>Outstanding, January 1, 2020</b> .....	1,158,712	103,031	915,816
Granted .....	61,165	—	—
Exercised .....	—	(96,019)	—
Expired .....	(33,336)	(5,567)	(280,004)
<b>Outstanding, December 31, 2020</b> .....	1,186,541	1,445	635,812
<b>Exercisable, December 31, 2020</b> .....	1,105,375	—	—
<b>Weighted average exercise price, December 31, 2020</b> .....	\$ 9.50	NA	NA
<b>Weighted average exercise price, January 1, 2020</b> .....	\$ 9.46	NA	NA
<b>Weighted average exercise price, September 1, 2020, the date of exercise</b> ..	NA	\$ 7.55	NA
<b>Weighted average remaining contractual life, December 31, 2020</b> .....	5.67	0.67 years	—
<b>Cash-settled share-based compensation</b>	<b>RSUs</b>	<b>PSUs</b>	<b>DSUs</b>
<b>Outstanding, January 1, 2020</b> .....	112,343	20,002	52,834
Granted .....	145,325	150,325	54,194
Exercised .....	(56,265)	—	—
Expired .....	(52,562)	—	—
<b>Outstanding, December 31, 2020</b> .....	148,841	170,327	107,028
<b>Weighted average remaining contractual life, December 31, 2020</b> .....	2.52 years	2.26 years	—

Under the terms of the Legacy Plan, certain stock-based awards will vest upon Oaktree owning less than 51% of the total outstanding common shares of Neo. Under the formula laid out in the plan, 423,875 equity-settled PSUs, 13,335 cash-settled PSUs, 1,445 equity-settled RSUs and 3,516 cash-settled RSUs will vest, while 211,941 equity-settled PSUs and 6,667 cash-settled PSUs will be cancelled in the first quarter of 2021. The vesting of equity-settled and cash-settled stock-based awards granted in 2020 is not conditioned upon Oaktree's ownership position in Neo.

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, 2020 and the December 31, 2019:

	Options	RSUs	PSUs	DSUs
<b>Valuation model and key assumptions for 2020 grants:</b>				
Grant date fair value .....	\$ 2.11	\$ 7.93	\$ 4.09	\$ 7.42
Dividend yield .....	3.9 %	— %	3.9 %	— %
Expected volatility .....	40.0 %	— %	47.0 %	— %
Risk-free interest rate .....	0.5 %	— %	0.2 %	— %
Share price .....	\$ 7.42	\$ —	\$ 8.05	\$ —
Forfeiture rate - service condition .....	— %	— %	— %	— %
			RSUs	DSUs
<b>Valuation model and key assumptions for 2019 grants:</b>				
Grant date fair value .....			\$ 8.00	\$ 9.91

The following table shows the share-based compensation expense recorded in the consolidated statements of profit or loss during the year ended December 31, 2020 and 2019:

	Year Ended December 31,	
	2020	2019
Options .....	\$ 165	\$ 202
RSUs .....	580	204
PSUs .....	332	100
DSUs .....	656	272
<b>Total</b> .....	<b>\$ 1,733</b>	<b>\$ 778</b>

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

	December 31, 2020	December 31, 2019
Accounts payable and other accrued charges .....	\$ 2,055	\$ 1,008
Contributed surplus .....	9,573	9,250
<b>Total</b> .....	<b>\$ 11,628</b>	<b>\$ 10,258</b>

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

	2020	2019
Options .....	\$ 129	\$ —
RSUs .....	1,568	569
PSUs .....	1,071	—
DSUs .....	585	310
<b>Total</b> .....	<b>\$ 3,353</b>	<b>\$ 879</b>

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**NOTE 22      RELATED PARTY TRANSACTIONS**

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

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

**22.1      Transactions with associates**

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

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

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

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

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

**22.2      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, 2020 and 2019.

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

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

### 22.3 Transactions with other related parties

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

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

	Year Ended December 31,	
	2020	2019
Sale of goods and services to related parties .....	\$ 6,915	\$ 5,785
Purchase of goods and services from related parties .....	49,316	38,724
	<b>December 31,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
Trade balances:		
from related parties .....	\$ 501	\$ 348
due to related parties .....	(17,338)	(5,215)
<b>Total</b> .....	<b>\$ (16,837)</b>	<b>\$ (4,867)</b>

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### NOTE 23 DIRECTORS AND KEY MANAGEMENT COMPENSATION

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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,	
	2020	2019
Directors .....	\$ 404	\$ 309
Key Executive Management .....	4,926	3,806
Total .....	<b>\$ 5,330</b>	<b>\$ 4,115</b>

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

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Directors .....	\$ 672	\$ 298
Key Executive Management .....	1,027	578
Total .....	<u>\$ 1,699</u>	<u>\$ 876</u>

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

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

## **NOTE 24 SALARIES EXPENSE**

The employee salaries included in cost of sales, selling, general and administrative, and research and development expenses are \$51.9 million and \$50.7 million for the year ended December 31, 2020 and December 31, 2019, respectively.

## **NOTE 25 EMPLOYEE BENEFITS**

### **25.1 Defined benefit pension plan and other post-retirement benefits**

Neo has a defined benefit pension plan which covered all hourly employees employed as at September 30, 1995 and all hourly employees subsequently hired by Neo up to March 1, 2002, at Neo's former manufacturing facility in Anderson, Indiana. There are no active participants in the plan. A December 31 measurement date is used for the plan. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2020 and the next funding valuation will be as of January 1, 2021.

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, 2020, and \$0.3 million during the year ended December 31, 2019. 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, 2020 and December 31, 2019, the U.S. plan's assets consist of the following:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Interest-bearing cash .....	3.1%	2.5%
Fixed income securities .....	56.3%	57.5%
Equities .....	40.3%	39.9%
Others .....	0.3%	0.1%



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, 2020 and December 31, 2019 was based on a weighted-average discount rate of 1.75% and 2.80%, 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, 2020, and December 31, 2019:

	<b>Pension</b>		<b>Postretirement</b>		<b>Total</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b><u>Included in net loss</u></b>						
Net interest cost	\$ 56	\$ 81	\$ 3	\$ 3	\$ 59	\$ 84
Service costs	—	—	14	—	14	—
Administrative expenses	30	30	—	—	30	30
<b>Defined benefit cost included in profit or loss</b>	<b>\$ 86</b>	<b>\$ 111</b>	<b>\$ 17</b>	<b>\$ 3</b>	<b>\$ 103</b>	<b>\$ 114</b>
	<b>Pension</b>		<b>Postretirement</b>		<b>Total</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b><u>Remeasurement loss (gain) included in other comprehensive income</u></b>						
Actuarial loss (gain) arising from:						
Demographic assumptions	\$ (79)	\$ (85)	\$ (1)	\$ (1)	\$ (80)	\$ (86)
Financial assumptions	856	839	7	7	863	846
Experience adjustments	74	6	4	3	78	9
Return on plan assets (excluding interest income)	(363)	(659)	—	—	(363)	(659)
<b>Total remeasurement loss recognized in other comprehensive income</b>	<b>\$ 488</b>	<b>\$ 101</b>	<b>\$ 10</b>	<b>\$ 9</b>	<b>\$ 498</b>	<b>\$ 110</b>

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, 2020 and December 31, 2019:

<b><u>Present value of defined benefit obligation</u></b>	<b><u>Pension</u></b>		<b><u>Postretirement</u></b>		<b><u>Total</u></b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
Benefit obligation at the beginning of the period	\$ 7,839	\$ 7,266	\$ 94	\$ 92	\$ 7,933	\$ 7,358
Service cost	—	—	14	—	14	—
Interest expense	239	291	3	3	242	294
Actuarial loss recognized in equity	851	760	10	9	861	769
Benefits paid	(477)	(478)	(11)	(10)	(488)	(488)
Benefit obligation at end of year	\$ 8,452	\$ 7,839	\$ 110	\$ 94	\$ 8,562	\$ 7,933
Unfunded	\$ —	\$ —	\$ 110	\$ 94	\$ 110	\$ 94
Partly or wholly funded	\$ 8,452	\$ 7,839	\$ —	\$ —	\$ 8,452	\$ 7,839
<b><u>Fair value of plan assets</u></b>	<b><u>Pension</u></b>		<b><u>Postretirement</u></b>		<b><u>Total</u></b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
Fair value of plan assets at the beginning of the period	\$ 5,902	\$ 5,233	\$ —	\$ —	\$ 5,902	\$ 5,233
Return on plan assets (excluding interest income)	363	659	—	—	363	659
Employer contribution	263	308	11	10	274	318
Interest income	183	210	—	—	183	210
Administrative expenses	(30)	(30)	—	—	(30)	(30)
Benefits paid	(477)	(478)	(11)	(10)	(488)	(488)
Fair value of plan assets at end of year	\$ 6,204	\$ 5,902	\$ —	\$ —	\$ 6,204	\$ 5,902
<b>Net defined benefit obligation</b>	<b>\$ 2,248</b>	<b>\$ 1,937</b>	<b>\$ 110</b>	<b>\$ 94</b>	<b>\$ 2,358</b>	<b>\$ 2,031</b>

The following table sets forth significant actuarial assumptions used in measuring Neo's pension and other benefit obligations and expense as at December 31, 2020 and December 31, 2019:

	<b><u>Pension benefit plans</u></b>		<b><u>Other benefit plans</u></b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
<b>Actuarial assumptions</b>				
Discount rate	2.25%	3.15%	1.75%	2.80%
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:

	<b>Pension benefit plans</b>		<b>Other benefit plans</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Assumed life expectations on retirement at age 65</b>				
<b>Retiring today (member age 65)</b>				
Males .....	19.5	19.7	19.5	19.7
Females .....	21.6	21.7	21.6	21.7
<b>Retiring in 25 years (member age 40 today)</b>				
Males .....	21.5	21.7	21.5	21.7
Females .....	23.4	23.8	23.4	23.8

At December 31, 2020 and December 31, 2019, the weighted-average duration of the defined benefit obligation was 12.4 and 11.8 years, respectively.

	<b>Pension benefit plans</b>		<b>Other benefit plans</b>	
	<b>2020</b>		<b>2020</b>	
	<b>Increase</b>	<b>Decrease</b>	<b>Increase</b>	<b>Decrease</b>
<b>Sensitivity analysis</b>				
Discount rate (1% movement) .....	\$ (942)	\$ 1,166	\$ (7)	\$ 8
	<b>Pension benefit plans</b>		<b>Other benefit plans</b>	
	<b>2019</b>		<b>2019</b>	
	<b>Increase</b>	<b>Decrease</b>	<b>Increase</b>	<b>Decrease</b>
<b>Sensitivity analysis</b>				
Discount rate (1% movement) .....	\$ (838)	\$ 1,031	\$ (6)	\$ 7

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

## 25.2 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, 2020 and the year ended December 31, 2019 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, 2020 and the year ended December 31, 2019 were consistent at approximately \$0.1 million.

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## NOTE 26 PROVISIONS

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

As at December 31, 2020, Neo recorded a provision of \$4.6 million (2019: \$3.1 million), net of costs paid, for the disposal of NORM and other related costs in China, and \$2.2 million (2019: \$2.6 million), net of costs paid, for the

disposal and other related costs in Estonia. These amounts represent management's best estimate of the costs to be incurred by Neo to settle the obligation. The total provision for NORM increased by \$1.2 million in comparison to 2019. The increase was due to updated estimates to remove the existing NORM for \$2.1 million and foreign exchange impact of \$0.2 million, net of \$1.1 million in cash paid to prepare the NORM for disposal. With respect to NORM in Estonia, Neo, in agreement with the government in Estonia, has set aside \$2.8 million (€2.3 million) in a restricted cash account. Neo expects the provision for transportation of the NORM to be settled by the end of 2021.

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**NOTE 27      GOVERNMENT GRANTS**

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Starting in March 2020, governments around the world introduced various programs and incentives including wage subsidy programs and incentives on property tax and utilities for companies who were negatively impacted by the COVID-19 global pandemic. Neo's subsidiaries in China, Singapore, Canada and Estonia benefited from these programs from March 2020 through December 2020. Neo's application for these various programs were approved in 2020 and Neo received \$1.5 million and accrued \$0.8 million for wage subsidies and incentives on property tax and utilities for the year ended December 31, 2020. Government grants are presented in the statement of profit or loss as follows:

	<b>Year ended December 31, 2020</b>
Costs excluding depreciation and amortization .....	\$ 1,447
Selling, general and administrative .....	670
Research and development .....	133
<b>Total</b> .....	<b>\$ 2,250</b>

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**NOTE 28      FINANCIAL RISK MANAGEMENT**

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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, 2020:

	<b>Chinese Renminbi</b>	<b>Euro</b>	<b>USD</b>	<b>Thai Baht</b>	<b>Canadian Dollar</b>	<b>British Pound</b>
Cash and cash equivalents	\$ 2,725	\$ 5,491	\$11,783	\$ 3,412	\$ 2,582	\$ 321
Accounts receivable	2,236	584	2,858	2,466	35	—
Income taxes receivable	—	972	—	—	—	—
Other receivable	335	1,245	—	498	859	—
Bank advances and other short-term debt	—	(2,428)	—	—	—	—
Accounts payable and accrued liabilities	(10,468)	(8,882)	(4)	(1,807)	(1,321)	(622)
Lease obligations	(144)	(30)	—	(19)	(166)	(24)
Income taxes payable	(297)	(2)	—	(881)	(576)	—
<b>Net financial assets (liabilities)</b>	<b>\$ (5,613)</b>	<b>\$ (3,050)</b>	<b>\$14,637</b>	<b>\$ 3,669</b>	<b>\$ 1,413</b>	<b>\$ (325)</b>

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, 2020 for Neo's financial instruments denominated in non-functional currencies:

	<b>Chinese Renminbi</b>	<b>Euro</b>	<b>Thai Baht</b>	<b>Canadian Dollar</b>	<b>British Pound</b>
1% Strengthening					
Net earnings before tax	\$ (56)	\$ (30)	\$ 37	\$ 14	\$ (3)
1% Weakening					
Net earnings before tax	56	30	(37)	(14)	3

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 \$38 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, 2020, Neo had no outstanding bank loans and \$2.4 million was 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 calculates a loss allowance using the ECL impairment model and the carrying amount of accounts receivable generally represents the maximum credit exposure. As at December 31, 2020, the loss allowance was approximately \$0.2 million. The estimated credit losses are included in selling, general and administrative expenses in the consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

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

## 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, 2020:

<b><u>Financial liabilities</u></b>	<b><u>1 year</u></b>	<b><u>2-3 years</u></b>	<b><u>4-5 years</u></b>	<b><u>Beyond 5 years</u></b>	<b><u>Total</u></b>
Bank advances and other short-term debts . . . . .	\$ 2,428	\$ —	\$ —	\$ —	\$ 2,428
Accounts payable and other accrued charges . . . . .	79,106	—	—	—	79,106
Derivative liability* . . . . .	9,428	—	—	—	9,428
Provisions . . . . .	2,628	4,201	—	—	6,829
Lease obligations . . . . .	1,297	1,726	473	44	3,540
Other liabilities . . . . .	940	1,513	—	—	2,453
<b>Total . . . . .</b>	<b>\$ 95,827</b>	<b>\$ 7,440</b>	<b>\$ 473</b>	<b>\$ 44</b>	<b>\$103,784</b>

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

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**NOTE 29 CAPITAL DISCLOSURES**

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Neo's objectives when managing its capital are:

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

Neo defines its capital as follows:

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

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

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

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

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

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**NOTE 30 SUBSEQUENT EVENTS**

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**30.1 Dividends payable to equity holders of Neo**

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

**30.2 Normal Course Issuer Bid**

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

### **30.3 Completion of Bought Deal Offering of Common Shares of Neo**

On February 17, 2021, Neo completed a bought deal Offering of common shares of Neo. Funds managed by Oaktree sold an aggregate of 5,175,000 common shares of Neo under the Offering at Cdn \$15.75 per share for total gross proceeds to the Selling Shareholders of approximately Cdn \$81.5 million. Following the completion of the Offering, Oaktree holds an aggregate of 17,109,155 common shares of Neo, representing approximately 45.7% of the issued and outstanding common shares of Neo. This constitutes a liquidity event under the Legacy Plan ([Note 21](#)).

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

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

### **30.4 Shanxi Jiahua Galaxy Electronic Materials Co., Ltd.**

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