



**NEO PERFORMANCE MATERIALS INC.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021**

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

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents .....	55,561	72,224
Restricted cash .....	4,102	4,219
Accounts receivable .....	70,325	51,851
Inventories <a href="#">(Note 5)</a> .....	142,427	130,867
Income taxes receivable .....	1,642	2,186
Assets held for sale .....	—	415
Other current assets .....	15,710	13,889
<b>Total current assets</b> .....	<b>289,767</b>	<b>275,651</b>
Property, plant and equipment .....	73,634	74,322
Intangible assets .....	52,361	53,653
Goodwill .....	68,635	68,967
Investments <a href="#">(Note 6)</a> .....	10,978	10,045
Deferred tax assets .....	2,926	3,040
Other non-current assets .....	851	864
<b>Total non-current assets</b> .....	<b>209,385</b>	<b>210,891</b>
<b>Total assets</b> .....	<b>\$ 499,152</b>	<b>\$ 486,542</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Bank advances and other short-term debt <a href="#">(Note 7)</a> .....	454	2,428
Accounts payable and other accrued charges .....	81,196	79,106
Income taxes payable .....	5,240	2,945
Provisions <a href="#">(Note 17)</a> .....	2,628	2,628
Lease obligations .....	1,563	1,297
Derivative liability <a href="#">(Note 7)</a> .....	9,702	9,428
Other current liabilities .....	909	940
<b>Total current liabilities</b> .....	<b>101,692</b>	<b>98,772</b>
Employee benefits .....	2,329	2,358
Provisions <a href="#">(Note 17)</a> .....	14,742	4,201
Deferred tax liabilities .....	12,707	13,970
Lease obligations .....	2,493	2,243
Other non-current liabilities .....	1,548	1,513
<b>Total non-current liabilities</b> .....	<b>33,819</b>	<b>24,285</b>
<b>Total liabilities</b> .....	<b>135,511</b>	<b>123,057</b>
Non-controlling interest .....	2,196	1,490
Equity attributable to equity holders of Neo Performance Materials Inc. ....	361,445	361,995
<b>Total equity</b> .....	<b>363,641</b>	<b>363,485</b>
<b>Total liabilities and equity</b> .....	<b>\$ 499,152</b>	<b>\$ 486,542</b>
Commitments and contingencies <a href="#">(Note 10)</a>		
Subsequent events <a href="#">(Note 21)</a>		

*See accompanying notes*

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Revenue</b> .....	130,855	90,697
<b>Costs of sales</b>		
Costs excluding depreciation and amortization .....	90,920	66,249
Depreciation and amortization .....	1,879	2,720
<b>Gross profit</b> .....	38,056	21,728
<b>Expenses</b>		
Selling, general and administrative .....	14,060	11,961
Share-based compensation <a href="#">(Note 14)</a> .....	1,592	(227)
Depreciation and amortization .....	1,955	2,036
Research and development .....	4,041	2,951
	21,648	16,721
<b>Operating income</b> .....	<b>16,408</b>	<b>5,007</b>
Other expense .....	(6,074)	(194)
Finance cost, net .....	(216)	(945)
Foreign exchange loss .....	(301)	(450)
<b>Income from operations before income taxes and equity income (loss) of associates</b> .....	9,817	3,418
Income tax expense <a href="#">(Note 13)</a> .....	(3,133)	(2,842)
<b>Income from operations before equity income (loss) of associates</b> .....	6,684	576
Equity income (loss) of associates (net of income tax) <a href="#">(Note 6)</a> .....	933	(58)
<b>Net income</b> .....	<b>\$ 7,617</b>	<b>\$ 518</b>
<b>Attributable to:</b>		
Equity holders of Neo Performance Materials Inc. ....	\$ 7,446	\$ 363
Non-controlling interest .....	171	155
	<b>\$ 7,617</b>	<b>\$ 518</b>
<b>Earnings per share attributable to equity holders of Neo Performance Materials Inc.:</b>		
Basic <a href="#">(Note 12)</a> .....	\$ 0.20	\$ 0.01
Diluted <a href="#">(Note 12)</a> .....	\$ 0.20	\$ 0.01

*See accompanying notes*

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Net income for the period</b> .....	\$ 7,617	\$ 518
<b>Other comprehensive loss:</b>		
Item that is or may be reclassified subsequently to profit or loss:		
Currency translation adjustment .....	(1,817)	(1,897)
<b>Other comprehensive loss for the period</b> .....	<b>(1,817)</b>	<b>(1,897)</b>
<b>Total comprehensive income (loss) for the period</b> .....	<b>\$ 5,800</b>	<b>\$ (1,379)</b>
<b>Attributable to:</b>		
Non-controlling interest .....	254	146
Equity holders of Neo Performance Materials Inc. ....	5,546	(1,525)
	<b>\$ 5,800</b>	<b>\$ (1,379)</b>

*See accompanying notes*

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating activities</b>		
Net income for the period	\$ 7,617	\$ 518
Add (deduct) items not affecting cash:		
Depreciation and amortization	3,834	4,756
Share-based compensation	1,592	(227)
Provisions <a href="#">(Note 17)</a>	7,362	—
Change in pension liability	(29)	(50)
Finance costs, net	216	945
Equity (income) loss of associates (net of income tax) <a href="#">(Note 6)</a>	(933)	58
(Gain) Loss on disposal of assets	(745)	118
Income tax expense <a href="#">(Note 13)</a>	3,133	2,842
Foreign exchange loss	474	347
Other	23	(279)
Net change in non-cash working capital balances related to operations <a href="#">(Note 9)</a>	(27,444)	(7,813)
Income taxes paid	(1,252)	(2,598)
Interest received, net of interest paid	58	7
<b>Cash used in operating activities</b>	<b>\$ (6,094)</b>	<b>\$ (1,376)</b>
<b>Investing activities</b>		
Additions of property, plant and equipment	(1,596)	(1,483)
Additions of intangible assets	(140)	(19)
Proceeds from sale of assets	426	—
Other investing activities	(5)	—
<b>Cash used in investing activities</b>	<b>\$ (1,315)</b>	<b>\$ (1,502)</b>
<b>Financing activities</b>		
Repayment of (increase in) bank advances and other short-term debt, net	(1,974)	1,151
Dividends paid to non-controlling interest	—	(2,259)
Dividends paid to equity holders of Neo Performance Materials Inc.	(3,085)	(2,836)
Repurchase of common shares	(37)	(950)
Lease payments	(329)	(326)
Withholding taxes paid on issuance of stock-based awards <a href="#">(Note 14)</a>	(3,000)	—
<b>Cash used in financing activities</b>	<b>\$ (8,425)</b>	<b>\$ (5,220)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(829)</b>	<b>(673)</b>
<b>Cash used during the period</b>	<b>(16,663)</b>	<b>(8,771)</b>
Cash and cash equivalents, beginning of period	72,224	84,735
<b>Cash and cash equivalents, end of period</b>	<b>\$ 55,561</b>	<b>\$ 75,964</b>

*See accompanying notes*

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

	Share Capital			Other Comprehensive 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, 2021</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>
Net income	—	—	7,446	—	—	—	—	7,446	171	7,617
Other comprehensive (loss) income	—	—	—	—	(1,900)	—	(1,900)	(1,900)	83	(1,817)
<b>Total comprehensive income (loss)</b>	<b>—</b>	<b>—</b>	<b>7,446</b>	<b>—</b>	<b>(1,900)</b>	<b>—</b>	<b>(1,900)</b>	<b>5,546</b>	<b>254</b>	<b>5,800</b>
Equity purchased from non-controlling interest	—	—	—	—	—	—	—	—	(5)	(5)
Non-controlling interest on subsidiary sold (Note 1)	—	—	—	—	—	—	—	—	457	457
Share-based compensation	—	—	—	25	—	—	—	25	—	25
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(3,085)	—	—	—	—	(3,085)	—	(3,085)
Shares repurchased and canceled under Normal Course Issuer Bid (Note 11)	(3,400)	—	—	(37)	—	—	—	(37)	—	(37)
Issuance of common shares on stock-based awards (Note 14)	243,950	1	—	(3,000)	—	—	—	(2,999)	—	(2,999)
	240,550	1	(3,085)	(3,012)	—	—	—	(6,096)	452	(5,644)
<b>Balance - March 31, 2021</b>	<b>37,700,940</b>	<b>\$ 38</b>	<b>\$ (37,296)</b>	<b>\$ 397,759</b>	<b>\$ 667</b>	<b>\$ 277</b>	<b>\$ 944</b>	<b>\$ 361,445</b>	<b>\$ 2,196</b>	<b>\$ 363,641</b>
<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 income	—	—	363	—	—	—	—	363	155	518
Other comprehensive loss	—	—	—	—	(1,888)	—	(1,888)	(1,888)	(9)	(1,897)
<b>Total comprehensive income (loss)</b>	<b>—</b>	<b>—</b>	<b>363</b>	<b>—</b>	<b>(1,888)</b>	<b>—</b>	<b>(1,888)</b>	<b>(1,525)</b>	<b>146</b>	<b>(1,379)</b>
Purchase of equity from non-controlling interest	—	—	—	—	—	—	—	—	52	52
Share-based compensation	—	—	—	116	—	—	—	116	—	116
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(2,836)	—	—	—	—	(2,836)	—	(2,836)
Dividend distributions to non-controlling interest	—	—	—	—	—	—	—	—	(50)	(50)
Shares repurchased and canceled under Normal Course Issuer Bid (Note 11)	(126,200)	—	—	(950)	—	—	—	(950)	—	(950)
	(126,200)	—	(2,836)	(834)	—	—	—	(3,670)	2	(3,668)
<b>Balance - March 31, 2020</b>	<b>37,672,756</b>	<b>\$ 38</b>	<b>\$ 25,098</b>	<b>\$ 402,931</b>	<b>\$ (9,282)</b>	<b>\$ 656</b>	<b>\$ (8,626)</b>	<b>\$ 419,441</b>	<b>\$ 4,145</b>	<b>\$ 423,586</b>

See accompanying notes

**NEO PERFORMANCE MATERIALS INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited - 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.

On December 22, 2020, Neo completed a bought deal secondary offering of common shares of Neo. OPSS NPM S.à.r.l. and OPSS NPM II S.à.r.l. (collectively the "**Selling Shareholders**"), both of whom are affiliates of Oaktree Capital Management L.P. ("**Oaktree**"), 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 a 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 held an aggregate of 17,109,155 common shares of Neo, representing approximately 45.7% of the issued and outstanding common shares of Neo. This constituted a liquidity event under the Legacy Plan ([Note 14](#)).

On April 27, 2021, Neo completed a bought deal secondary offering of common shares of Neo. OPSS NPM S.à.r.l., an affiliate of Oaktree ("the **Selling Shareholder**") sold an aggregate of 4,600,000 common shares of Neo under this secondary offering at Cdn. \$19.75 per share for total gross proceeds to the Selling Shareholder of approximately Cdn. \$90.9 million. Following the completion of this secondary offering, Oaktree now holds an aggregate of 12,509,155 common shares of Neo, representing approximately 33.2% of the issued and outstanding common shares of Neo ([Note 21](#)).

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 1,830 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.

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

### ***Corporate***

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

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

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These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 - Interim Financial Reporting, as issued by the International Accounting Standards Board ("**IASB**"). These interim condensed consolidated financial statements do not include all of the disclosures required by International Financial Reporting Standards ("**IFRS**") issued by the IASB for annual financial statements and should be read in conjunction with Neo's audited annual financial statements and accompanying notes for the year ended December 31, 2020. The significant accounting policies disclosed in Note 4 of Neo's audited annual financial statements for the year ended December 31, 2020 have been applied consistently in the preparation of these interim condensed consolidated financial statements.



The interim condensed consolidated financial statements were approved and authorized for issuance by Neo's Board of Directors ("**Board**") on May 12, 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 interim condensed 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 interim condensed 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 RECENT ACCOUNTING PRONOUNCEMENTS**

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Neo adopted the following accounting standards and amendments to accounting standards during the period ended March 31, 2021:

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

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

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

The amendments were effective for annual periods beginning on or after January 1, 2021 with earlier application permitted. The amendment was adopted by Neo on January 1, 2021. The amendment did not have a material impact on the interim condensed 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:

#### **4.2 Definition of Accounting Estimates (Amendments to IAS 8)**

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

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

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

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

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

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

#### **4.4 Covid-19-Related Rent Concessions (Amendment to IFRS 16)**

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

The new 2021 amendments are effective for annual periods beginning on or after April 1, 2021, with early adoption permitted.

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

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

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

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

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

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

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

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

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

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#### NOTE 5 INVENTORIES

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

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Raw materials .....	\$ 55,647	\$ 46,404
Work-in-progress .....	31,220	28,151
Finished goods .....	48,507	47,713
Supplies .....	7,053	8,599
<b>Total</b> .....	<b>\$ 142,427</b>	<b>\$ 130,867</b>

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

For the period ended March 31, 2021, a total of \$88.3 million of inventories was included in cost of sales compared to \$64.6 million for the period ended March 31, 2020. These include \$1.9 million of provisions for inventories in the period ended March 31, 2021 and a nominal amount of provisions in the period ended March 31, 2020.

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#### NOTE 6 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%

Investments accounted for using the equity method are as follows:

	<b>TMT</b>	<b>Keli</b>	<b>GQD</b>	<b>Total</b>
Carrying value at January 1, 2021 ..	\$ 1,966	\$ 7,173	\$ 906	\$ 10,045
Share of results in associates .....	178	330	425	933
<b>Carrying value at March 31, 2021 .....</b>	<b>\$ 2,144</b>	<b>\$ 7,503</b>	<b>\$ 1,331</b>	<b>\$ 10,978</b>
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>

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#### NOTE 7 CATEGORIES OF FINANCIAL INSTRUMENTS

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

<b>Financial Assets</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
<b>Measured at amortized cost <sup>(1)</sup></b>		
Cash and cash equivalents .....	\$ 55,561	\$ 72,224
Restricted cash .....	4,102	4,219
Accounts receivable .....	70,325	51,851
<b>Total financial assets .....</b>	<b>\$ 129,988</b>	<b>\$ 128,294</b>

<b><u>Financial Liabilities</u></b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
<b>Fair value through profit or loss</b>		
Put option issued to non-controlling interest of Buss & Buss (Derivative liability) .....	\$ 9,702	\$ 9,428
<b>Measured at amortized cost <sup>(1)</sup></b>		
Current:		
Bank advances and other short-term debt .....	454	2,428
Accounts payable and other accrued charges .....	81,196	79,106
	<u>\$ 81,650</u>	<u>\$ 81,534</u>
<b>Total financial liabilities</b> .....	<b>\$ 91,352</b>	<b>\$ 90,962</b>

**Notes:**

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

### 7.1 Derivative liability

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

For the three months ended March 31, 2021, the change in the fair value of the derivative liability of \$0.3 million was recorded as finance expense. For the three months ended March 31, 2020, the change in the fair value of the derivative liability of \$1.3 million (comprised of an increase of \$0.7 million due to changes in fair value assumptions and a decrease of \$2.0 million relating to the dividend paid) was recorded as finance income.

On March 17, 2020, Buss & Buss declared and paid \$4.4 million (Euro 4.0 million) of dividends to its shareholders (NMT Holdings GmbH and a non-controlling interest). In accordance with IAS 32, Neo has elected to record the dividend paid to its non-controlling interest of \$2.2 million as a finance expense.

### 7.2 Financial assets and liabilities measured at fair value

The following table presents financial assets and liabilities measured at fair value in the interim condensed 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 interim condensed consolidated statement of financial position as at March 31, 2021, 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 .....	\$ —	\$ —	\$ 9,702

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 March 31, 2021.

### **7.3 Bank advances, short-term loan and debt**

#### **7.3.1 Chinese bank advances**

As of March 31, 2021, there is no amount outstanding on the line of credit in China.

#### **7.3.2 German debt facility**

As at March 31, 2021, Buss & Buss has a \$6.4 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 \$0.29 million (€0.25 million) as well as a lien amounting to \$0.59 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 March 31, 2021, \$0.5 million (€0.4 million) was drawn from the revolving line of credit.

There are no financial covenants which need to be met.

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## **NOTE 8 OPERATING SEGMENTS**

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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 three months ended March 31, 2021:**

	<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 .....	\$ 64,905	\$ 49,234	\$ 16,716	\$ —	\$ 130,855	\$ —	\$ 130,855
Inter-segment revenue .....	—	5,156	—	—	5,156	(5,156)	—
<b>Total revenue .....</b>	<b>\$ 64,905</b>	<b>\$ 54,390</b>	<b>\$ 16,716</b>	<b>\$ —</b>	<b>\$ 136,011</b>	<b>\$ (5,156)</b>	<b>\$ 130,855</b>
<b>Net Income (loss) .....</b>	<b>\$ 9,238</b>	<b>\$ 4,870</b>	<b>\$ 739</b>	<b>\$ (5,785)</b>	<b>\$ 9,062</b>	<b>\$ (1,445)</b>	<b>\$ 7,617</b>
Finance (income) cost, net .....	(47)	8	331	(76)	216	—	216
Income tax expense .....	2,450	216	451	16	3,133	—	3,133
Depreciation and amortization included in costs of sales .....	799	510	570	—	1,879	—	1,879
Depreciation and amortization included in operating expenses .....	1,525	283	63	84	1,955	—	1,955
<b>EBITDA .....</b>	<b>\$ 13,965</b>	<b>\$ 5,887</b>	<b>\$ 2,154</b>	<b>\$ (5,761)</b>	<b>\$ 16,245</b>	<b>\$ (1,445)</b>	<b>\$ 14,800</b>

**Reconciliation to Adjusted EBITDA:**

EBITDA .....	\$ 13,965	\$ 5,887	\$ 2,154	\$ (5,761)	\$ 16,245	\$ (1,445)	\$ 14,800
Other (income) expense <sup>(1)</sup> .....	(19)	7,081	(988)	—	6,074	—	6,074
Foreign exchange loss (gain) .....	401	(54)	(274)	228	301	—	301
Equity income of associates .....	(933)	—	—	—	(933)	—	(933)
Share and value-based compensation <sup>(2)</sup> .....	18	4	11	1,559	1,592	—	1,592
Other costs <sup>(3)</sup> .....	—	—	—	602	602	—	602
<b>Adjusted EBITDA <sup>(4)</sup> .....</b>	<b>\$ 13,432</b>	<b>\$ 12,918</b>	<b>\$ 903</b>	<b>\$ (3,372)</b>	<b>\$ 23,881</b>	<b>\$ (1,445)</b>	<b>\$ 22,436</b>
Capital expenditures .....	\$ 1,031	\$ 519	\$ 186	\$ —	\$ 1,736	\$ —	\$ 1,736

**Notes:**

- (1) Represents other expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents share and value-based compensation expense in respect of the Legacy Plan (Note 14), 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. The liquidity event occurred in the three months ended March 31, 2021 and the value bonus was settled. No additional value-based compensation expense was included in selling, general, and administration expense for the three months ended March 31, 2021.
- (3) Represents primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.
- (4) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.

**For the three months ended March 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 .....	\$ 38,526	\$ 31,721	\$ 20,450	\$ —	\$ 90,697	\$ —	\$ 90,697
Inter-segment revenue .....	—	1,817	—	—	1,817	(1,817)	—
<b>Total revenue .....</b>	<b>\$ 38,526</b>	<b>\$ 33,538</b>	<b>\$ 20,450</b>	<b>\$ —</b>	<b>\$ 92,514</b>	<b>\$ (1,817)</b>	<b>\$ 90,697</b>
<b>Net Income (loss) .....</b>	<b>\$ 3,652</b>	<b>\$ 1,661</b>	<b>\$ (1,588)</b>	<b>\$ (3,160)</b>	<b>\$ 565</b>	<b>\$ (47)</b>	<b>\$ 518</b>
Finance cost (income), net ..	43	(51)	994	(41)	945	—	945
Income tax expense .....	1,739	679	418	6	2,842	—	2,842
Depreciation and amortization included in costs of sales .....	788	997	935	—	2,720	—	2,720
Depreciation and amortization included in operating expenses .....	1,425	387	140	84	2,036	—	2,036
<b>EBITDA .....</b>	<b>\$ 7,647</b>	<b>\$ 3,673</b>	<b>\$ 899</b>	<b>\$ (3,111)</b>	<b>\$ 9,108</b>	<b>\$ (47)</b>	<b>\$ 9,061</b>

**Reconciliation to Adjusted EBITDA:**

EBITDA .....	\$ 7,647	\$ 3,673	\$ 899	\$ (3,111)	\$ 9,108	\$ (47)	\$ 9,061
Other expense .....	5	58	87	44	194	—	194
Foreign exchange loss (gain) .....	42	627	(88)	(131)	450	—	450
Equity loss of associates ..	58	—	—	—	58	—	58
Share and value-based compensation <sup>(1)</sup> .....	(37)	55	13	(149)	(118)	—	(118)
Adjusted EBITDA <sup>(2)</sup> .....	<b>\$ 7,715</b>	<b>\$ 4,413</b>	<b>\$ 911</b>	<b>\$ (3,347)</b>	<b>\$ 9,692</b>	<b>\$ (47)</b>	<b>\$ 9,645</b>
Capital expenditures .....	\$ 976	\$ 231	\$ 295	\$ —	\$ 1,502	\$ —	\$ 1,502

**Notes:**

- (1) Represents share and value based compensation expense in respect of the Legacy Plan (Note 14) 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 \$0.1 million was included in selling, general, and administration expense for the three months ended March 31, 2020.
- (2) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.



**As at March 31, 2021:**

	<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 .....	\$ 277,826	\$ 145,194	\$ 73,300	\$ 4,614	\$ 500,934	\$ (1,782)	\$ 499,152
Investment in equity method associates .....	10,978	—	—	—	10,978	—	10,978
Total liabilities .....	(52,706)	(48,476)	(20,050)	(14,279)	(135,511)	—	(135,511)

**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)

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

<u>Revenue</u>	<u>Three Months Ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
Asia:		
China .....	\$ 45,339	\$ 22,741
Japan .....	35,208	15,507
Thailand .....	6,173	3,260
South Korea .....	860	2,162
North America .....	14,924	18,871
Europe .....	24,646	24,966
Other .....	3,705	3,190
<b>Total</b> .....	<b>\$ 130,855</b>	<b>\$ 90,697</b>

Revenue from one significant customer accounted for \$24.8 million and \$13.9 million of Neo's total revenue for the three months ended March 31, 2021 and March 31, 2020, respectively. Neo defines significant customers as those that generates 10% or more of consolidated revenue.

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**NOTE 9 SUPPLEMENTAL CASH FLOW INFORMATION**

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Decrease (increase) in assets:		
Accounts receivable .....	\$ (18,898)	\$ (916)
Inventories .....	(12,413)	1,706
Other assets .....	(1,874)	(4,702)
Increase (decrease) in liabilities:		
Accounts payable and other accrued charges .....	5,762	(3,857)
Other liabilities .....	(21)	(44)
<b>Total net change</b> .....	<b>\$ (27,444)</b>	<b>\$ (7,813)</b>

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**NOTE 10 COMMITMENTS AND CONTINGENCIES**

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**10.1 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 variable prices. Neo believes that these contracts serve to reduce risk and does not anticipate that losses will be incurred on these contracts.

**10.2 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. Rhodia appealed this ruling, and on April 6, 2021, the German Federal Supreme Court reversed the judgment of the Federal Patent Court and upheld the validity of EP 338, subject to certain limitations in its scope. Neo's appeal of the judgment of infringement is still pending before the Higher Regional Court of Karlsruhe.

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.

<b>Patent Reference</b>	<b>Jurisdiction of Claim</b>	<b>Specified Damages by Claimant</b>
Chinese patent ZL 03817110.4	China	\$3.0 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 11      SHARE CAPITAL**

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	<b>March 31, 2021</b>	<b>December 31, 2020</b>
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 .....	37,700,940	37,460,390
Total treasury shares .....	—	—

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

**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 three months ended March 31, 2021, Neo repurchased and canceled 3,400 shares for a nominal amount. For the three months ended March 31, 2020, Neo repurchased and canceled 126,200 shares under a previously announced normal course issuer bid for a total consideration of \$1.0 million.

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**NOTE 12      EARNINGS PER SHARE**

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**12.1      Basic earnings per share**

The calculation of basic earnings per share was based on net income attributable to equity holders of Neo for the three months ended March 31, 2021, and March 31, 2020. The weighted average number of shares outstanding is calculated as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Common shares issued at beginning of period .....	37,460,390	37,798,956
Weighted average impact of:		
Issuance of common shares .....	24,395	—
Repurchase and cancellation of common shares under Normal Course Issuer Bid .....	(3,147)	(59,657)
<b>Weighted average number of common shares for the period - basic ...</b>	<b>37,481,638</b>	<b>37,739,299</b>

**12.2      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>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Net income attributable to equity holders of Neo Performance Materials Inc. - basic and diluted .....	\$ 7,446	\$ 363

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Weighted average number of common shares - basic .....	37,481,638	37,739,299
Dilutive effect of Stock Units .....	332,495	80,379
<b>Weighted average number of common shares - diluted .....</b>	<b>37,814,133</b>	<b>37,819,678</b>

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Earnings per share - basic .....	\$ 0.20	\$ 0.01
Earnings per share - diluted .....	\$ 0.20	\$ 0.01

For the three months ended March 31, 2021, no equity-settled PSUs were included in the dilutive weighted-average number of ordinary shares calculation as they were either forfeited or exercised and issued during the quarter. For the three months ended March 31, 2020, 915,816 equity-settled PSUs were excluded from the dilutive weighted-average number of ordinary shares calculation as they were contingently issuable upon a liquidity event occurring and achieving certain shareholders' internal milestones which were not met as at March 31, 2020.

For the three months ended March 31, 2021, 60,004 (2020: 1,158,712) 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 13 INCOME TAXES

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

For the three months ended March 31, 2021, Neo had an income tax expense of \$3.1 million on income from operations before taxes of \$9.8 million. For the three months ended March 31, 2020, Neo had an income tax expense of \$2.8 million on income from operations before taxes of \$3.4 million.

Neo's effective income tax rates were 31.9% for the three months ended March 31, 2021 and 83.1% for the three months ended March 31, 2020.

The higher effective tax rate for the three months ended March 31, 2020 is due primarily to the non-deductible finance expense relating to the dividend paid to its non-controlling interest, the impact of foreign exchange fluctuations, and the lower amount of income from operations.

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## NOTE 14 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.

During the three months ended March 31, 2021, 423,875 equity-settled PSUs, 13,335 cash-settled PSUs, 1,445 equity-settled RSUs and 3,516 cash-settled RSUs have vested and issued under the terms of the Legacy Plan and upon Oaktree owning less than 51% of the total outstanding common shares of Neo, while 211,941 equity-settled PSUs and 6,667 cash-settled PSUs were forfeited. After accounting for the effect of withholding taxes on the vested common shares in the amount of \$3.0 million, 243,950 common shares of Neo were issued on the equity-settled PSUs and RSUs which vested in the first quarter of 2021.

The following table shows the share-based compensation expense (recovery) recorded in the interim condensed consolidated statements of profit or loss during the three months ended March 31, 2021 and March 31, 2020:

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Options .....	\$ 25	\$ 50
RSUs .....	510	96
PSUs .....	507	(101)
DSUs .....	550	(272)
<b>Total</b> .....	<b>\$ 1,592</b>	<b>\$ (227)</b>

There were no new grants during the three months ended March 31, 2021 and March 31, 2020.

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## **NOTE 15      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.

### **15.1      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 three months ended March 31, 2021, Neo purchased \$0.5 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$20.3 million, and received services from GQD amounting to \$3.9 million. For the three months ended March 31, 2021, Neo sold Magnequench Powders and performed services amounting to \$1.6 million to TMT. For the three months ended March 31, 2021, Neo sold oxides to Keli amounting to \$1.4 million.

For the three months ended March 31, 2020, Neo purchased \$0.4 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$8.5 million, and received services from GQD amounting to \$0.8 million. For the three months ended March 31, 2020, Neo sold Magnequench Powders and performed services, amounting to \$0.7 million to TMT.

### **15.2      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 both the three months ended March 31, 2021 and 2020.



Neo also has occasionally purchased and sold products from and to Ganzhou Qian Dong Rare Earth Group Co. Ltd. ("**Qian Dong**") and Toda Kogyo Corp. ("**Toda**"). For the three months ended March 31, 2021, purchases from Qian Dong were \$0.4 million. For the three months ended March 31, 2021, sales to Toda were \$0.2 million.

For the three months ended March 31, 2020, there were no purchases from Qian Dong. Sales to Toda for the three months ended March 31, 2020 were \$0.1 million.

### 15.3 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 three months ended March 31, 2021 and March 31, 2020, sales to Atatsu were \$0.1 million.

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Sale of goods and services to related parties .....	\$ 3,297	\$ 890
Purchase of goods and services from related parties .....	25,034	9,641
	<b>March 31,</b>	<b>December 31,</b>
	<b>2021</b>	<b>2020</b>
Trade balances:		
from related parties .....	\$ 1,035	\$ 501
due to related parties .....	(16,428)	(17,338)
<b>Total</b> .....	<b>\$ (15,393)</b>	<b>\$ (16,837)</b>

## NOTE 16 DIRECTORS AND KEY MANAGEMENT COMPENSATION

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Directors .....	\$ 86	\$ 97
Key Executive Management .....	959	904
<b>Total</b> .....	<b>\$ 1,045</b>	<b>\$ 1,001</b>

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Directors .....	\$ 550	\$ (265)
Key Executive Management .....	910	34
<b>Total</b> .....	<b>\$ 1,460</b>	<b>\$ (231)</b>

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**NOTE 17      PROVISIONS**

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During the three months ended March 31, 2021, Neo has recorded additional provisions of \$7.4 million for the disposal of naturally occurring radioactive materials ("**NORM**") and estimated potential damages for historical volumes related to ongoing patent legal litigation. A balance of \$3.2 million from accounts payable and other accrued charges has been reclassified to provisions in the current quarter to conform to the current period presentation. Such reclassification did not affect results of operations.

	<b>Total</b>
Balance as at January 1, 2021 .....	6,829
Reclassified from accounts payable and other accrued charges .....	3,179
Provisions made in the quarter .....	7,362
<b>Balance as at March 31, 2021</b> .....	<b>\$ 17,370</b>
<b>Current portion</b> .....	<b>\$ 2,628</b>
<b>Non-current portion</b> .....	<b>\$ 14,742</b>

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**NOTE 18      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.

**18.1      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.

**18.2      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 March 31, 2021:

	<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	\$ 1,163	\$ 3,952	\$ 6,644	\$ 3,954	\$ 1,748	\$ 216
Accounts receivable	192	2,226	5,108	3,293	—	—
Income taxes receivable	—	928	—	—	—	—
Other receivable	288	1,509	—	422	438	—
Bank advances and other short-term debt	—	(454)	—	—	—	—
Accounts payable and accrued liabilities	(6,160)	(8,689)	(2,974)	(1,743)	(1,934)	(784)
Lease obligations	(144)	(26)	—	(29)	(170)	(24)
Income taxes payable	(320)	(204)	—	(842)	(576)	—
<b>Net financial assets (liabilities)</b>	<b>\$ (4,981)</b>	<b>\$ (758)</b>	<b>\$ 8,778</b>	<b>\$ 5,055</b>	<b>\$ (494)</b>	<b>\$ (592)</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 March 31, 2021 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	\$ (50)	\$ (8)	\$ 51	\$ (5)	\$ (6)
1% Weakening					
Net earnings before tax	50	8	(51)	5	6

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 \$18 thousand gain or loss, respectively.

### 18.3 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 March 31, 2021, Neo had no outstanding bank loans and \$0.5 million was drawn from the line of credit, and thus does not have significant exposure to interest rate fluctuations.

## 18.4 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 March 31, 2021, the loss allowance was approximately \$0.2 million. The estimated credit losses are included in selling, general and administrative expenses in the interim condensed 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 March 31, 2021, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

## 18.5 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 19](#). 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 March 31, 2021:

<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	\$ 454	\$ —	\$ —	\$ —	\$ 454
Accounts payable and other accrued charges	81,196	—	—	—	81,196
Derivative liability*	9,702	—	—	—	9,702
Provisions	2,628	14,742	—	—	17,370
Lease obligations	1,563	2,074	376	43	4,056
Other liabilities	909	1,548	—	—	2,457
<b>Total</b>	<b>\$ 96,452</b>	<b>\$ 18,364</b>	<b>\$ 376</b>	<b>\$ 43</b>	<b>\$115,235</b>

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

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## NOTE 19 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 20      FUNCTIONAL CURRENCY CHANGE**

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On January 31, 2021, Zibo Jia Hua Advanced Material Resources Co., Ltd. ("**ZAMR**"), one of Neo's subsidiaries in China, separated its mixed oxide business from rare earth business by transferring assets and liabilities of its mixed oxide business to Neo Jia Hua Advanced Materials (Zibo) Co., Ltd ("**NAMCO**"), another subsidiary of Neo in China. Subsequent to the transfer of assets and liabilities to NAMCO, ZAMR will continue its rare earth business and will carry out the majority of its operations in Chinese renminbi ("**RMB**"). It is management's view that the RMB best portrays the economic results of ZAMR and thereby best achieves the objectives of foreign currency translation. As a result, effective February 1, 2021, the functional currency of ZAMR was changed from U.S. dollars to RMB and will be applied on a prospective basis.

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**NOTE 21      SUBSEQUENT EVENTS**

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

On May 12, 2021, the Board of Directors declared a quarterly dividend of Cdn \$0.10 per common share payable in cash on June 28, 2021, to common shareholders of record at the close of business on June 19, 2021.

**21.2      Bought Deal Secondary Offering of Common Shares of Neo**

On April 27, 2021, Neo completed a bought deal secondary offering of common shares of Neo. OPPS NPM S.à.r.l., a fund managed by Oaktree ("the **Selling Shareholder**") sold an aggregate of 4,600,000 common shares of Neo under this secondary offering at Cdn. \$19.75 per share for total gross proceeds to the Selling Shareholder of approximately Cdn. \$90.9 million. Following the completion of this secondary offering, Oaktree now holds an aggregate of 12,509,155 common shares of Neo, representing approximately 33.2% of the issued and outstanding common shares of Neo.