



NEO PERFORMANCE MATERIALS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2022

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

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
ASSETS		
Current		
Cash and cash equivalents	66,158	89,037
Restricted cash	1,276	1,283
Accounts receivable	85,785	65,209
Inventories (Note 5)	214,182	200,954
Income taxes receivable	477	1,667
Other current assets	21,896	19,211
Total current assets	389,774	377,361
Property, plant and equipment (Note 6)	74,877	73,378
Intangible assets	46,226	49,961
Goodwill	67,750	70,082
Investments (Note 7)	16,746	13,759
Deferred tax assets	7,677	6,638
Other non-current assets	1,925	2,903
Total non-current assets	215,201	216,721
Total assets	\$ 604,975	\$ 594,082
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt (Note 8)	11,940	6,502
Accounts payable and other accrued charges	62,756	94,201
Income taxes payable	11,711	7,059
Provisions (Note 18)	651	5,560
Lease obligations	1,189	1,589
Derivative liability (Note 8)	15,961	14,704
Current portion of long-term debt (Note 8)	733	—
Other current liabilities	1,199	1,455
Total current liabilities	106,140	131,070
Long-term debt (Note 8)	3,796	—
Employee benefits	1,167	1,210
Provisions (Note 18)	22,813	15,127
Deferred tax liabilities	15,392	13,366
Lease obligations	1,278	1,388
Other non-current liabilities	1,407	1,405
Total non-current liabilities	45,853	32,496
Total liabilities	151,993	163,566
Non-controlling interest	3,233	2,891
Equity attributable to equity holders of Neo Performance Materials Inc.	449,749	427,625
Total equity	452,982	430,516
Total liabilities and equity	\$ 604,975	\$ 594,082

Commitments and contingencies (Note 11)

Subsequent events (Note 21)

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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	168,221	135,141	334,503	265,996
Costs of sales				
Costs excluding depreciation and amortization	121,796	94,580	236,112	185,500
Depreciation and amortization	2,388	1,912	4,766	3,791
Gross profit	44,037	38,649	93,625	76,705
Expenses				
Selling, general and administrative	14,262	13,617	28,515	27,677
Share-based compensation (Note 15)	957	(29)	1,138	1,563
Depreciation and amortization	1,853	1,935	3,748	3,890
Research and development	5,707	4,931	10,281	8,972
Impairment of assets	295	—	295	—
	23,074	20,454	43,977	42,102
Operating income	20,963	18,195	49,648	34,603
Other (expense) income	(855)	213	(1,288)	(5,861)
Finance cost, net	(2,292)	(1,457)	(2,706)	(1,673)
Foreign exchange gain (loss)	959	(788)	548	(1,089)
Income from operations before income taxes and equity income of associates	18,775	16,163	46,202	25,980
Income tax expense (Note 14)	(6,001)	(3,479)	(11,996)	(6,612)
Income from operations before equity income of associates	12,774	12,684	34,206	19,368
Equity income of associates (net of income tax) (Note 7)	1,917	343	3,186	1,276
Net income	\$ 14,691	\$ 13,027	\$ 37,392	\$ 20,644
Attributable to:				
Equity holders of Neo Performance Materials Inc.	\$ 14,607	\$ 12,960	\$ 36,957	\$ 20,406
Non-controlling interest	84	67	435	238
	\$ 14,691	\$ 13,027	\$ 37,392	\$ 20,644
Earnings per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic (Note 13)	\$ 0.36	\$ 0.34	\$ 0.91	\$ 0.54
Diluted (Note 13)	\$ 0.36	\$ 0.34	\$ 0.90	\$ 0.54

See accompanying notes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income for the period	\$ 14,691	\$ 13,027	\$ 37,392	\$ 20,644
Other comprehensive income (loss):				
Item that is or may be reclassified subsequently to profit or loss:				
Currency translation adjustment	(10,812)	2,885	(10,447)	1,068
Other comprehensive (loss) income for the period ...	(10,812)	2,885	(10,447)	1,068
Total comprehensive income for the period	\$ 3,879	\$ 15,912	\$ 26,945	\$ 21,712
Attributable to:				
Non-controlling interest	(14)	43	342	297
Equity holders of Neo Performance Materials Inc. ...	3,893	15,869	26,603	21,415
	\$ 3,879	\$ 15,912	\$ 26,945	\$ 21,712

See accompanying notes

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

	Six Months Ended June 30,	
	2022	2021
Operating activities		
Net income for the period	\$ 37,392	\$ 20,644
Add (deduct) items not affecting cash:		
Depreciation and amortization	8,514	7,681
Share-based compensation	1,138	1,563
Provisions (Note 18)	6,532	8,127
Change in pension liability	(43)	(64)
Finance costs, net	2,706	1,673
Equity income of associates, net of income tax (Note 7)	(3,186)	(1,276)
Loss (gain) on disposal of assets	70	(745)
Income tax expense (Note 14)	11,996	6,612
Foreign exchange loss	(201)	402
Impairment of assets	295	—
Other	(871)	(128)
Net change in non-cash working capital balances related to operations (Note 10)	(75,809)	(41,954)
Income taxes paid, net of income taxes recovered	(4,411)	(3,788)
Interest received, net of interest paid	(300)	37
Cash used in operating activities	\$ (16,178)	\$ (1,216)
Investing activities		
Additions of property, plant and equipment	(9,260)	(4,102)
Additions of intangible assets	(104)	(155)
Proceeds from sale of assets	—	426
Acquisition of equity securities (Note 12)	—	(776)
Other investing activities	—	(5)
Cash used in investing activities	\$ (9,364)	\$ (4,612)
Financing activities		
Increase in bank advances and other short-term debt, net	6,444	1,987
Dividends paid to equity holders of Neo Performance Materials Inc.	(6,338)	(6,211)
Net proceeds from long-term debt	4,529	—
Repurchase of common shares	—	(37)
Lease payments	(842)	(800)
Withholding taxes paid, net of amount received from issuance of common shares on stock-based awards	144	(1,452)
Cash provided by (used in) financing activities	\$ 3,937	\$ (6,513)
Effect of exchange rate changes on cash and cash equivalents	(1,274)	(287)
Cash used during the period	(22,879)	(12,628)
Cash and cash equivalents, beginning of period	89,037	72,224
Cash and cash equivalents, end of period	\$ 66,158	\$ 59,596

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 Income				Total			
	Common Stock		Retained Earnings (Deficit)	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains, net of tax	Accumulated Other Comprehensive Income	Equity Attributable to Equity Holders of NPM Inc.	Non-Controlling Interest	Equity
	Number	Amount								
Balance - January 1, 2022	40,668,902	\$ 41	\$ (19,253)	\$ 439,795	\$ 6,034	\$ 1,008	\$ 7,042	\$ 427,625	\$ 2,891	\$ 430,516
Net income	—	—	36,957	—	—	—	—	36,957	435	37,392
Other comprehensive loss	—	—	—	—	(10,354)	—	(10,354)	(10,354)	(93)	(10,447)
Total comprehensive income	—	—	36,957	—	(10,354)	—	(10,354)	26,603	342	26,945
Share-based compensation	—	—	—	1,737	—	—	—	1,737	—	1,737
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(6,338)	—	—	—	—	(6,338)	—	(6,338)
Issuance of common shares on stock-based awards	13,000	—	—	122	—	—	—	122	—	122
	13,000	—	(6,338)	1,859	—	—	—	(4,479)	—	(4,479)
Balance - June 30, 2022	40,681,902	\$ 41	\$ 11,366	\$ 441,654	\$ (4,320)	\$ 1,008	\$ (3,312)	\$ 449,749	\$ 3,233	\$ 452,982
Balance - January 1, 2021	37,460,390	\$ 37	\$ (41,657)	\$ 400,771	\$ 2,567	\$ 277	\$ 2,844	\$ 361,995	\$ 1,490	\$ 363,485
Net income	—	—	20,406	—	—	—	—	20,406	238	20,644
Other comprehensive income	—	—	—	—	1,009	—	1,009	1,009	59	1,068
Total comprehensive income	—	—	20,406	—	1,009	—	1,009	21,415	297	21,712
Purchase of equity from non-controlling interest	—	—	—	—	—	—	—	—	(5)	(5)
Non-controlling interest of the subsidiary sold	—	—	—	—	—	—	—	—	457	457
Share-based compensation	—	—	—	53	—	—	—	53	—	53
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(6,211)	—	—	—	—	(6,211)	—	(6,211)
Shares repurchased and canceled under Normal Course Issuer Bid (Note 12)	(3,400)	—	—	(37)	—	—	—	(37)	—	(37)
Issuance of common shares on stock-based awards	411,952	1	—	(1,453)	—	—	—	(1,452)	—	(1,452)
	408,552	1	(6,211)	(1,437)	—	—	—	(7,647)	452	(7,195)
Balance - June 30, 2021	37,868,942	\$ 38	\$ (27,462)	\$ 399,334	\$ 3,576	\$ 277	\$ 3,853	\$ 375,763	\$ 2,239	\$ 378,002

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)

NOTE 1 NATURE OF OPERATIONS

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

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

Neo has approximately 1,845 employees and has a global platform that includes 10 manufacturing facilities located in China, the United States ("**U.S.**"), Germany, Canada, Estonia, Thailand and South Korea as well as one dedicated research and development ("**R&D**") centre in Singapore. Since 1994, Neo has leveraged its processing expertise to innovate and grow into a leading manufacturer of advanced industrial materials for specialty end markets. Neo has established itself as a leading commercial partner to some of the world's largest customers in the automotive, manufacturing, semiconductor, advanced electronic and specialty chemical industries. As a result, Neo is well positioned in markets that are forecast to see robust, long-term growth driven by multiple global macro trends, such as vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and superalloys. Neo identifies growth markets driven by global macro trends such as these, and produces highly engineered industrial materials that are critical to the performance of applications in those markets.

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

Magnequench

The Magnequench segment, with more than 30 years of manufacturing experience, is the world leader in the production of permanent magnetic powders used in bonded and hot-deformed, fully dense neodymium-iron-boron ("**NdFeB**" or "**neo**") magnets. These powders are formed through Magnequench's market-leading technology related to the development, processing, and manufacturing of neo magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench Powder using a blend of various inputs. Magnequench also manufactures magnets using these bonded magnetic powders. These powders and bonded permanent magnets are used in the following: micro motors for household applications like vacuum cleaners, refrigerators, hair dryers, air conditioners and residential heating and cooling circulation pumps; industrial and other sensors; motors used in various automotive applications for hybrid, electric, and internal combustion engine vehicles; and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

C&O

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

Rare Metals

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

Corporate

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

NOTE 2 GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

These 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, 2021. The significant accounting policies disclosed in Note 4 of Neo's audited annual financial statements for the year ended December 31, 2021 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 August 11, 2022.

Significant management judgment in applying accounting policies

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

NOTE 3 BASIS OF PREPARATION

These 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.

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS

Neo adopted the following accounting standards and amendments to accounting standards during the period ended June 30, 2022:

4.1 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 were 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. The amendment was adopted by Neo on January 1, 2022. The amendment did not have a material impact on the interim condensed consolidated financial statements.

4.2 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, or to any periods retrospectively, 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.

This amendment to IAS 1 is effective for annual periods starting on or after January 1, 2023, earlier application is permitted. The amendment was adopted by Neo on January 1, 2022. 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:

4.3 Definition of Accounting Estimates (Amendments to IAS 8)

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

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

4.4 Disclosure Initiative - Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

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

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

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

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

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

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

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

NOTE 5 INVENTORIES

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

	June 30, 2022	December 31, 2021
Raw materials	\$ 63,000	\$ 73,023
Work-in-progress	59,483	42,019
Finished goods	84,557	78,412
Supplies	7,142	7,500
Total	\$ 214,182	\$ 200,954

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

For the three months ended June 30, 2022, a total of \$120.3 million of inventories was included in the cost of sales compared to \$94.3 million for the three months ended June 30, 2021. These include \$0.1 million of provisions for inventories in the three months ended June 30, 2022 and \$1.0 million in the three months ended June 30, 2021.

For the six months ended June 30, 2022, a total of \$234.5 million of inventories was included in cost of sales compared to \$182.6 million for the six months ended June 30, 2021. These included \$0.7 million of provisions for inventories in the six months ended June 30, 2022 and \$2.9 million in the six months ended June 30, 2021.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	Land	Building & improvements	Machinery & Equipment	Right-of-use Assets	Office equipment	Construction in Progress (net of transfer)	Total
At January 1, 2022							
Cost	\$ 2,550	\$ 36,059	\$ 78,262	\$ 6,755	\$ 8,023	\$ 4,929	\$136,578
Accumulated depreciation	—	(14,101)	(41,630)	(3,586)	(3,883)	—	(63,200)
Opening net book value at January 1, 2022	\$ 2,550	\$ 21,958	\$ 36,632	\$ 3,169	\$ 4,140	\$ 4,929	\$ 73,378
Additions ⁽¹⁾	—	18	370	4,792	283	4,226	9,689
Write-offs, net of cost and accumulated depreciation	—	—	(60)	—	(10)	—	(70)
Transfers	—	566	1,857	—	485	(2,908)	—
Currency translation adjustments	—	(524)	(837)	(70)	(109)	(81)	(1,621)
Impairments	—	—	(295)	—	—	—	(295)
Depreciation expense	—	(1,314)	(3,443)	(824)	(623)	—	(6,204)
Closing net book value at June 30, 2022	\$ 2,550	\$ 20,704	\$ 34,224	\$ 7,067	\$ 4,166	\$ 6,166	\$ 74,877
Comprised of:							
Cost	\$ 2,550	\$ 35,690	\$ 78,060	\$ 11,247	\$ 8,450	\$ 6,166	\$142,163
Accumulated depreciation	—	(14,986)	(43,836)	(4,180)	(4,284)	—	(67,286)

Notes:

- (1) In June 2021, Neo Jia Hua Advanced Material (Zibo) Co., Ltd. ("NAMCO"), one of Neo's subsidiaries in China, entered into a 50 year land lease agreement with the Chinese government in the amount of \$4.4 million. In March 2022, NAMCO received the land certificate from the Chinese government which gives permission to NAMCO to begin using the land as stated in the lease agreement.

	<u>Land</u>	<u>Building & improvements</u>	<u>Machinery & Equipment</u>	<u>Right-of-use Assets</u>	<u>Office equipment</u>	<u>Construction in Progress (net of transfer)</u>	<u>Total</u>
At January 1, 2021							
Cost	\$ 2,550	\$ 34,519	\$ 71,647	6,142	\$ 7,105	\$ 4,194	\$126,157
Accumulated depreciation	—	(12,057)	(34,210)	(2,382)	(3,186)	—	(51,835)
Opening net book value at January 1, 2021	\$ 2,550	\$ 22,462	\$ 37,437	\$ 3,760	\$ 3,919	\$ 4,194	\$ 74,322
Additions	—	61	1,215	1,202	184	7,699	10,361
Write-offs, net of cost and accumulated depreciation	—	—	(136)	(125)	(146)	(103)	(510)
Transfers	—	1,033	4,658	—	1,181	(6,872)	—
Currency translation adjustments	—	250	164	29	58	11	512
Impairment	—	—	(121)	—	—	—	(121)
Depreciation expense	—	(1,848)	(6,585)	(1,697)	(1,056)	—	(11,186)
Closing net book value at December 31, 2021 ...	\$ 2,550	\$ 21,958	\$ 36,632	\$ 3,169	\$ 4,140	\$ 4,929	\$ 73,378
Comprised of:							
Cost	\$ 2,550	\$ 36,059	\$ 78,262	\$ 6,755	\$ 8,023	\$ 4,929	\$136,578
Accumulated depreciation	—	(14,101)	(41,630)	(3,586)	(3,883)	—	(63,200)

NOTE 7 INVESTMENTS

7.1 Investment in Associates

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

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

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

	<u>Country of Incorporation or Registration</u>	<u>Percentage Share Holdings</u>
Keli	China	25%
TMT	China	33%
GQD	Thailand	20%

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, 2022	\$ 2,302	\$ 9,760	\$ 1,697	\$ 13,759
Share of results in associates	286	2,644	256	3,186
Unrealized profit from sales to associates	(195)	(4)	—	(199)
Carrying value at June 30, 2022	\$ 2,393	\$ 12,400	\$ 1,953	\$ 16,746
Carrying value at January 1, 2021	\$ 1,966	\$ 7,173	\$ 906	\$ 10,045
Share of results in associates	439	2,587	791	3,817
Dividends received from associates	(103)	—	—	(103)
Carrying value at December 31, 2021	\$ 2,302	\$ 9,760	\$ 1,697	\$ 13,759

NOTE 8 CATEGORIES OF FINANCIAL INSTRUMENTS

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

<u>Financial Assets</u>	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Fair value through profit or loss		
Equity securities ⁽¹⁾	\$ 860	\$ 2,056
Measured at amortized cost ⁽²⁾		
Cash and cash equivalents	\$ 66,158	\$ 89,037
Restricted cash	1,276	1,283
Accounts receivable	85,785	65,209
	<u>\$ 153,219</u>	<u>\$ 155,529</u>
Total financial assets	\$ 154,079	\$ 157,585

<u>Financial Liabilities</u>	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Fair value through profit or loss		
Put option issued to non-controlling interest of Buss & Buss (derivative liability)	\$ 15,961	\$ 14,704
Measured at amortized cost ⁽²⁾		
Current:		
Bank advances and other short-term debt	11,940	6,502
Accounts payable and other accrued charges	62,756	94,201
Current portion of long-term debt ⁽³⁾	733	—
	<u>\$ 75,429</u>	<u>\$ 100,703</u>
Non-current:		
Long-term debt ⁽³⁾	\$ 3,796	\$ —
Total financial liabilities	<u>\$ 95,186</u>	<u>\$ 115,407</u>

Notes:

(1) On June 30, 2021, Neo purchased equity securities in the amount of \$0.8 million. The fair value of these equity securities in the period ended December 31, 2021 increased by \$1.3 million (\$1.4 million increase in fair value net of foreign exchange loss of \$0.1 million). For the three months ended June 30, 2022, the fair value of these equity securities decreased by \$1.0 million (\$0.9 million decrease in fair value in addition to foreign exchange loss of \$0.1 million). For the six months ended June 30, 2022, the fair value of these equity securities decreased by \$1.2 million (\$1.1 million decrease in fair value in addition to foreign exchange loss of \$0.1 million).

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

(3) Estonian debt facility - see [Note 8.3.3](#)

8.1 Derivative liability

As at June 30, 2022, 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 three months ended June 30, 2022 and 2021, the change in the fair value of the derivative liability was an increase of \$1.2 million and \$1.4 million, respectively. For the six months ended June 30, 2022 and 2021, the change in the fair value of the derivative liability was an increase of \$1.3 million and \$1.7 million, respectively. These changes were due to changes in fair value assumptions and were recorded as finance expense.

8.2 Financial assets and liabilities measured at fair value

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

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

The level in which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the consolidated statement of financial position as at June 30, 2022, are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3
Financial Assets:			
Equity securities	\$ 860	\$ —	\$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	\$ —	\$ —	\$ 15,961

Neo's equity securities, classified in Level 1, is measured at FVTPL based on the stock price of the securities that is publicly available. For the three and six months ended June 30, 2022, the fair value of the equity securities decreased by \$1.0 million (\$0.9 million as a result of decrease in share price and a foreign exchange loss of \$0.1 million), and \$1.2 million (\$1.1 million as a result in decrease in share price and a foreign exchange loss of \$0.1 million), respectively, and was recorded as finance expense.

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 June 30, 2022.

8.3 Bank advances, short-term loan and debt

8.3.1 Chinese debt facility

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

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

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

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

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

Neo and the relevant borrowing parties repaid \$6.2 million (RMB 40.0 million) in the three and six months ended June 30, 2022. The remaining balance drawn on the Facilities as at June 30, 2022, net of changes in foreign exchange, is \$11.9 million (RMB 80.0 million). Neo and the relevant borrowing parties are in compliance with all covenants in the Facilities agreement as at June 30, 2022.

8.3.2 German debt facility

As at June 30, 2022, Buss & Buss has a \$5.8 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 \$0.26 million (€0.25 million) as well as a lien amounting to \$0.52 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.

Neo repaid \$0.21 million (€0.2 million) in the six months ended at June 30, 2022. As at June 30, 2022, no amount was drawn from the revolving line of credit.

There are no financial covenants which need to be met.

8.3.3 Estonia debt facility

On December 23, 2021, Silmet entered into a \$7.3 million (€7.0 million) credit facility with OP Corporate Bank plc Eesti filiaal ("**OP Bank**") to finance working capital and other investments at Silmet. On December 29, 2021, part of the credit facility was assigned to a bank guarantee related to the disposal of naturally occurring radioactive materials ("**NORM**") residue, thus temporarily reducing the credit facility by \$2.4 million (€2.3 million) to a net \$4.9 million (€4.7 million) credit facility which can be drawn in Euros and accrues interest at a rate equal to the 6-month Euribor plus 1.95% per annum.

As part of the facility agreement, Silmet has pledged certain security as collateral in favour of OP Bank, including a combined mortgage over certain real estate properties for \$9.4 million (€9.0 million), and certain other fixed assets for \$5.2 million (€5.0 million).

The facility contains a number of financial covenants, which include a debt service coverage ratio, an equity ratio, and that a maximum net debt to EBITDA ratio not be exceeded – as such terms are defined in the facility agreement. The financial covenants are tested semi-annually as of June 30 and December 31 each year.

Silmet repaid \$0.2 million (€0.2 million) in the three and six months ended June 30, 2022. As at June 30, 2022, \$4.5 million (€4.3 million) was drawn from the credit facility, and Silmet is in compliance with all covenants in the facility agreement. The current portion of this term debt facility as at June 30, 2022 was \$0.7 million, while \$3.8 million was classified as long-term. Please see [Note 19.5](#) for the scheduled repayment of this borrowing.

Subsequent to June 30, 2022, the OP Bank released the \$2.3 million (€2.3 million) from the bank guarantee and an additional \$2.5 million (€2.5 million) was drawn from the credit facility by Silmet for a total outstanding balance of \$6.9 million (€6.8 million).

NOTE 9 OPERATING SEGMENTS

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

A comparative breakdown of business segment information is as follows:

For the three months ended June 30, 2022:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	\$ 78,412	\$ 63,917	\$ 25,892	\$ —	\$ 168,221	\$ —	\$ 168,221
Inter-segment revenue	—	5,433	—	—	5,433	(5,433)	—
Total revenue	\$ 78,412	\$ 69,350	\$ 25,892	\$ —	\$ 173,654	\$ (5,433)	\$ 168,221
Net Income (loss)	\$ 10,317	\$ 8,424	\$ 1,638	\$ (5,992)	\$ 14,387	\$ 304	\$ 14,691
Finance (income) cost, net	(2)	205	1,277	812	2,292	—	2,292
Income tax (recovery) expense	3,312	798	1,895	(4)	6,001	—	6,001
Depreciation and amortization (" D&A ") - COGS	874	1,043	471	—	2,388	—	2,388
D&A - SG&A	1,422	285	77	69	1,853	—	1,853
EBITDA	\$ 15,923	\$ 10,755	\$ 5,358	\$ (5,115)	\$ 26,921	\$ 304	\$ 27,225
Reconciliation to Adjusted EBITDA:							
EBITDA	\$ 15,923	\$ 10,755	\$ 5,358	\$ (5,115)	\$ 26,921	\$ 304	\$ 27,225
Other (income) expense ⁽¹⁾	(30)	150	735	—	855	—	855
Foreign exchange loss (gain)	1,182	(1,432)	(1,280)	571	(959)	—	(959)
Equity income of associates	(1,917)	—	—	—	(1,917)	—	(1,917)
Share-based compensation ⁽²⁾	167	190	66	534	957	—	957
Impairments	—	—	295	—	295	—	295
Adjusted EBITDA ⁽³⁾	\$ 15,325	\$ 9,663	\$ 5,174	\$ (4,010)	\$ 26,152	\$ 304	\$ 26,456
Capital expenditures	\$ 1,068	\$ 963	\$ 551	\$ —	\$ 2,582	\$ —	\$ 2,582

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-based compensation expense in respect of the Plan [\(Note 15\)](#) and the LTIP.
- (3) 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 six months ended June 30, 2022:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	\$ 152,426	\$ 127,123	\$ 54,954	\$ —	\$ 334,503	\$ —	\$ 334,503
Inter-segment revenue	—	9,890	—	—	9,890	(9,890)	—
Total revenue	\$ 152,426	\$ 137,013	\$ 54,954	\$ —	\$ 344,393	\$ (9,890)	\$ 334,503
Net Income (loss)	\$ 19,066	\$ 23,654	\$ 4,330	\$ (9,660)	\$ 37,390	\$ 2	\$ 37,392
Finance cost, net	16	293	1,361	1,036	2,706	—	2,706
Income tax expense	5,706	3,186	3,072	32	11,996	—	11,996
D&A - COGS	1,781	2,021	964	—	4,766	—	4,766
D&A - SG&A	2,900	567	143	138	3,748	—	3,748
EBITDA	\$ 29,469	\$ 29,721	\$ 9,870	\$ (8,454)	\$ 60,606	\$ 2	\$ 60,608

Reconciliation to Adjusted EBITDA:

EBITDA	\$ 29,469	\$ 29,721	\$ 9,870	\$ (8,454)	\$ 60,606	\$ 2	\$ 60,608
Other (income) expense ⁽¹⁾	(143)	663	768	—	1,288	—	1,288
Foreign exchange loss (gain)	1,639	(1,174)	(1,543)	530	(548)	—	(548)
Equity income of associates	(3,186)	—	—	—	(3,186)	—	(3,186)
Share based compensation ⁽²⁾	323	363	125	327	1,138	—	1,138
Impairments	—	—	295	—	295	—	295
Other recoveries ⁽³⁾	—	—	—	(22)	(22)	—	(22)
Adjusted EBITDA ⁽⁴⁾	\$ 28,102	\$ 29,573	\$ 9,515	\$ (7,619)	\$ 59,571	\$ 2	\$ 59,573
Capital expenditures	\$ 2,261	\$ 6,063	\$ 1,040	\$ —	\$ 9,364	\$ —	\$ 9,364

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-based compensation expense in respect of the Plan [\(Note 15\)](#) and the LTIP.
- (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 June 30, 2021:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	\$ 67,888	\$ 47,170	\$ 20,083	\$ —	\$ 135,141	\$ —	\$ 135,141
Inter-segment revenue	—	5,085	—	—	5,085	(5,085)	—
Total revenue	\$ 67,888	\$ 52,255	\$ 20,083	\$ —	\$ 140,226	\$ (5,085)	\$ 135,141
Net Income (loss)	\$ 10,351	\$ 7,284	\$ (557)	\$ (3,403)	\$ 13,675	\$ (648)	\$ 13,027
Finance (income) cost, net ..	(55)	(24)	1,499	37	1,457	—	1,457
Income tax expense	2,870	32	564	13	3,479	—	3,479
D&A - COGS	833	521	558	—	1,912	—	1,912
D&A - SG&A	1,503	292	63	77	1,935	—	1,935
EBITDA	\$ 15,502	\$ 8,105	\$ 2,127	\$ (3,276)	\$ 22,458	\$ (648)	\$ 21,810

Reconciliation to Adjusted EBITDA:

EBITDA	\$ 15,502	\$ 8,105	\$ 2,127	\$ (3,276)	\$ 22,458	\$ (648)	\$ 21,810
Other (income) expense ⁽¹⁾ ..	(201)	39	(51)	—	(213)	—	(213)
Foreign exchange (gain) loss	(34)	589	380	(147)	788	—	788
Equity income of associates ..	(343)	—	—	—	(343)	—	(343)
Share and value-based compensation ⁽²⁾	13	2	6	(50)	(29)	—	(29)
Other costs ⁽³⁾	—	—	—	164	164	—	164
Adjusted EBITDA ⁽⁴⁾	\$ 14,937	\$ 8,735	\$ 2,462	\$ (3,309)	\$ 22,825	\$ (648)	\$ 22,177
Capital expenditures	\$ 1,092	\$ 1,054	\$ 375	\$ —	\$ 2,521	\$ —	\$ 2,521

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-based compensation expense in respect of the Plan ([Note 15](#)) and the LTIP.
- (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 six months ended June 30, 2021:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	\$ 132,793	\$ 96,404	\$ 36,799	\$ —	\$ 265,996	\$ —	\$ 265,996
Inter-segment revenue	—	10,241	—	—	10,241	(10,241)	—
Total revenue	\$ 132,793	\$ 106,645	\$ 36,799	\$ —	\$ 276,237	\$ (10,241)	\$ 265,996
Net Income (loss)	\$ 19,589	\$ 12,154	\$ 182	\$ (9,188)	\$ 22,737	\$ (2,093)	\$ 20,644
Finance cost (income), net	(102)	(16)	1,830	(39)	1,673	—	1,673
Income tax expense	5,320	248	1,015	29	6,612	—	6,612
D&A - COGS	1,632	1,031	1,128	—	3,791	—	3,791
D&A - SG&A	3,028	575	126	161	3,890	—	3,890
EBITDA	\$ 29,467	\$ 13,992	\$ 4,281	\$ (9,037)	\$ 38,703	\$ (2,093)	\$ 36,610

Reconciliation to Adjusted EBITDA:

EBITDA	\$ 29,467	\$ 13,992	\$ 4,281	\$ (9,037)	\$ 38,703	\$ (2,093)	\$ 36,610
Other (income) expense ⁽¹⁾	(220)	7,120	(1,039)	—	5,861	—	5,861
Foreign exchange loss	367	535	106	81	1,089	—	1,089
Equity income of associates	(1,276)	—	—	—	(1,276)	—	(1,276)
Share and value-based compensation ⁽²⁾	31	6	17	1,509	1,563	—	1,563
Other costs ⁽³⁾	—	—	—	766	766	—	766
Adjusted EBITDA ⁽⁴⁾	\$ 28,369	\$ 21,653	\$ 3,365	\$ (6,681)	\$ 46,706	\$ (2,093)	\$ 44,613
Capital expenditures	\$ 2,123	\$ 1,573	\$ 561	\$ —	\$ 4,257	\$ —	\$ 4,257

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-based compensation expense in respect of the Plan [\(Note 15\)](#) and the LTIP.
- (3) Represents primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.
- (4) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.

As at June 30, 2022:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
Total assets	\$ 307,592	\$ 190,315	\$ 91,875	\$ 17,910	\$ 607,692	\$ (2,717)	\$ 604,975
Investment in equity method associates	16,746	—	—	—	16,746	—	16,746
Total liabilities	(48,066)	(52,271)	(34,575)	(17,081)	(151,993)	—	(151,993)

As at December 31, 2021:

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

The geographic distribution of Neo's revenue based on the location of its customers for the three and six months ended June 30, 2022 and 2021 are summarized as follows:

Revenue	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Asia:				
China	\$ 61,720	\$ 49,034	\$ 117,596	\$ 94,373
Japan	19,801	28,821	46,877	64,029
Thailand	9,932	7,615	17,052	13,788
South Korea	1,972	1,029	3,894	1,889
North America	26,321	16,680	56,603	31,604
Europe	43,713	28,741	83,424	53,387
Other	4,762	3,221	9,057	6,926
Total	\$ 168,221	\$ 135,141	\$ 334,503	\$ 265,996

Revenue from one significant customer accounts for \$17.8 million and \$42.9 million of Neo's total revenue for the three and six months ended June 30, 2022, respectively, and \$22.4 million and \$47.2 million for the three and six months ended June 30, 2021, respectively. Neo defines significant customers as those that generate 10% or more of consolidated revenue.

NOTE 10 SUPPLEMENTAL CASH FLOW INFORMATION

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

	Six Months Ended June 30,	
	2022	2021
Increase in assets:		
Accounts receivable	\$ (22,926)	\$ (17,186)
Inventories	(18,327)	(3,318)
Other assets	(2,993)	(4,899)
Decrease in liabilities:		
Accounts payable and other accrued charges	(31,473)	(16,005)
Other liabilities	(90)	(546)
Total net change	\$ (75,809)	\$ (41,954)

NOTE 11 COMMITMENTS AND CONTINGENCIES

11.1 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.

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

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

Neo C&O (Europe) challenged the validity of patents 984, 846, 274 and 267 before the German Federal Patent Court, which upheld patents 984, 846 and 267, but invalidated patent 274. Both Neo C&O (Europe) and Rhodia appealed the rulings with respect to 984, 846 and 274 to the German Supreme Court. The German Supreme Court has upheld the validity of patents 984, 846 and 274 but narrowed the scope of all three patents. The German Federal Patent Court's ruling upholding 267 was not appealed. Neo C&O (Europe) also filed actions in the German Federal Patent Court challenging the validity of European patent #1527018 ("**018**") and European patent #2007682 ("**682**"). On March 22, 2022, Neo C&O (Europe)'s lawsuit in the German Federal Patent Court challenging the validity of 682 was dismissed on the ground that it was filed prematurely. Neo C&O (Europe) has appealed the dismissal of its lawsuit to invalidate 682. Neo's lawsuit to invalidate 018 is still pending.

Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed four unexpired patents: 018, 682, European Patent #1435338 B1 ("**338**") and European patent #2523907 ("**907**"). In September 2020, Neo C&O (Europe) was found to infringe 018 in Germany by the Düsseldorf Regional Court. Neo and Rhodia have both appealed this ruling, and the appeals are still pending. The Düsseldorf Regional Court stayed Rhodia's case alleging infringement of 682, pending the outcome of Neo's action before the German Federal Patent Court to invalidate 682. In September of 2021 the Court of Appeal remanded the case back to the Düsseldorf Regional Court to reconsider its order staying the 682 infringement proceeding. The Düsseldorf Regional Court has not yet ruled on Neo's motion for stay following the remand. The 907 action was initiated at the beginning of July 2020, but Rhodia dismissed the 907 action in March 2021.

In December 2017, the Regional Court of Mannheim (Germany) determined that certain of Neo C&O (Europe)'s products infringed patent 338, and an injunction prohibiting the sale of affected products into Germany was granted. Neo C&O (Europe) appealed the decision on infringement. In January 2019, the Federal Patent Court in Munich revoked the German designation of patent 338. Rhodia appealed this ruling, and on April 6, 2021, the German Federal Supreme Court reversed the judgment of the Federal Patent Court and upheld the validity of patent 338, subject to certain limitations in its scope. In December of 2021, the Higher Regional Court of Karlsruhe dismissed Neo's appeal in the infringement case and affirmed the Regional Court of Mannheim's ruling that Neo had infringed patent 338 in Germany. Neo has filed for leave to appeal this judgment to the German Federal Supreme Court.

In April 2018, the United Kingdom ("**UK**") High Court of Justice 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. In 2020 Neo C&O (Europe) reached a confidential settlement with the plaintiffs, Rhodia Operations S.A.S. and Anan Kasai Co. Ltd., for some of the damage claims. A trial on the plaintiffs' remaining claims for damages took place in January and February 2022. On March 29, 2022, the Court ruled that the plaintiffs were not entitled to any damages for the remaining claims. The plaintiffs have been granted the right to appeal the trial court's judgment, and the appeal is pending.

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. Rhodia Operations appealed the decision of the Beijing IP Court. On April 1, 2022, the Supreme People's Court upheld the ruling of the Beijing IP Court and the judgment invalidating patent ZL 03817110.4 is now final.

On September 26, 2018, the PRB again ruled in favor of ZAMR by invalidating all product claims associated with patent ZL 200710146613.6, held by Daiichi Kigenso Kagaku Kogyo Co. ("**DKKK**"). The PRB upheld the validity of Claim 4, which is a method claim. In December 2020, the Beijing IP Court upheld the ruling of the PRB invalidating claims 1 through 3 of patent ZL 200710146613.6. DKKK's appeal of this judgment to the Supreme People's Court is pending. On October 24, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by DKKK and Rhodia Operations alleging infringement of patent ZL 200710146613.6. On November 22, 2019, the Shandong Higher Court reversed the ruling of the Zibo Intermediate Court and ordered that the case be transferred to the Ji'nan Intermediate Court for a trial on alleged infringement of Claim 4. However, in May of 2021 DKKK and Rhodia Operations withdrew their suit alleging infringement of Claim 4.

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

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

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

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

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

Patent Reference	Jurisdiction of Claim	Specified Damages by Claimant
European patent 0863846 B1	Germany	} \$8.7 million
European patent 0735984 B1	Germany	
European patent 0605274 B1	Germany	
Chinese patent ZL 96196505.3	China	\$6.7 million
European Patent EP 3009403	Estonia	\$0.1 million
European & UK patents 1435338 B1	Germany	\$39.8 million
European & UK patents 1435338 B1	UK	Not specified
European patent 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified

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

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

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

NOTE 12 SHARE CAPITAL

	<u>June 30, 2022</u>	<u>December 31, 2021</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	40,681,902	40,668,902
Total treasury shares	—	—

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

Normal Course Issuer Bid

On June 1, 2021, Neo announced that the TSX had accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**Bid**") for up to 2,111,758 of its issued and outstanding common shares. In connection with the Bid, Neo has entered into an automatic share purchase plan with its designated broker to allow for purchases of its shares (the "**Share Purchase Plan**"). The Share Purchase Plan is considered an "automatic plan" for purposes of applicable Canadian securities laws. Under the Share Purchase Plan, Neo's broker may purchase shares on any trading day during the Bid, including during self-imposed trading blackout periods. The price that Neo will pay for any shares purchased under the Bid will be the prevailing market price at the time of purchase. Any shares purchased by Neo will be canceled. The Share Purchase Plan terminated on June 3, 2022.

For the three and six months ended June 30, 2022, Neo did not repurchase or cancel any shares. There were no shares repurchased for the three months ended June 30, 2021. For the six months ended June 30, 2021, Neo repurchased and canceled 3,400 shares for a nominal amount.

NOTE 13 EARNINGS PER SHARE

13.1 Weighted-average number of common shares - basic

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Common shares issued at beginning of period	40,681,902	37,700,940	40,668,902	37,460,390
Weighted average impact of:				
Issuance of common shares	—	114,463	12,646	192,327
Repurchase and cancellation of common shares under Normal Course Issuer Bid	—	—	—	(3,274)
Weighted average number of common shares for the period - basic	40,681,902	37,815,403	40,681,548	37,649,443

13.2 Weighted average number of common shares - diluted

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Weighted average number of common shares - basic	40,681,902	37,815,403	40,681,548	37,649,443
Dilutive effect of Stock Units	319,153	379,741	408,171	359,742
Weighted average number of common shares - diluted	41,001,055	38,195,144	41,089,719	38,009,185

13.3 Earnings per share

The calculation of basic and diluted earnings per share was based on net income attributable to equity holders of Neo for the six months ended June 30, 2022, and June 30, 2021.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income attributable to equity holders of Neo Performance Materials Inc. - basic and diluted	\$ 14,607	\$ 12,960	\$ 36,957	\$ 20,406
	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Earnings per share - basic	\$ 0.36	\$ 0.34	\$ 0.91	\$ 0.54
Earnings per share - diluted	\$ 0.36	\$ 0.34	\$ 0.90	\$ 0.54

For the three and three and six months ended June 30, 2022, 399,709 (2021: nil and 60,004, respectively) stock options, were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

For the three and three and six months ended June 30, 2022, 38,820 (2021: nil) equity-settled RSUs, respectively, were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

For the three and six months ended June 30, 2022, 215,155 (2021: nil) equity-settled PSUs, respectively, were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

NOTE 14 INCOME TAXES

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 and six months ended June 30, 2022, Neo had an income tax expense of \$6.0 million and \$12.0 million, respectively, on income from operations before taxes of \$18.8 million and \$46.2 million. For the three and six months ended June 30, 2021, Neo had an income tax expense of \$3.5 million and \$6.6 million, respectively, on income from operations before taxes of \$16.2 million and \$26.0 million.

Neo's effective income tax rates were 32.0% and 26.0% for the three and six months ended June 30, 2022, respectively, and 21.5% and 25.5% for the three and six months ended June 30, 2021, respectively.

NOTE 15 SHARE-BASED COMPENSATION

On September 12, 2017 OCM Neo Holdings (Cayman), L.P. ("**OCM**") formed Neo, a company incorporated in the province of Ontario, for the purpose of completing a Cayman Islands scheme of arrangement (the "**Arrangement**") with Neo Cayman Holdings Ltd. ("**Neo Cayman**") and a subsequent public offering of common shares of Neo. Neo Cayman's management incentive plan was assigned to Neo upon the completion of the Arrangement. This plan ("**Legacy Plan**") was comprised of Stock Options, Restricted Share Units ("**RSUs**"), Performance Stock Units ("**PSUs**") and Special Performance Stock Units ("**Special PSUs**") (collectively referred to as "**Stock Units**"). These Stock Units were granted under the Legacy Plan to directors, officers, and employees, and provide the right for these individuals to receive common shares of Neo or, in the case of the options, to purchase common shares of Neo.

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

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

On May 28, 2021, an omnibus long-term incentive plan (the "**Plan**") was established. The Plan was formally approved at the Annual General and Special Meeting of Neo on June 29, 2021. No future awards will be granted under the Legacy Plan or LTIP.

During the three and six months ended June 30, 2022, Neo granted 33,483 DSUs to its directors under the Plan. During the six months ended June 30, 2022, Neo also granted 153,155 Options, 38,820 equity-settled RSUs, 97,000 equity-settled PSUs, 57,110 cash-settled RSUs, and 57,110 cash-settled PSUs under the Plan.

During the three and six months ended June 30, 2022, 13,000 stock options have been exercised under the terms of the Legacy Plan. No other stock units were issued or vested under the terms of the Legacy Plan.

Equity-settled share-based compensation	Options	Weighted- average exercise price - Options	RSUs	PSUs
Outstanding, January 1, 2022	1,018,073	\$ 10.60	47,270	118,155
Granted	153,155	\$ 13.22	38,820	97,000
Exercised	(13,000)	\$ 9.37	—	—
Expired	—	\$ —	—	—
Outstanding, June 30, 2022	1,158,228	\$ 10.96	86,090	215,155
Exercisable, June 30, 2022	777,746	\$ 9.65	—	—
Weighted average exercise price, exercised during the period ended June 30, 2022	\$ 9.65			
Weighted average remaining contractual life, June 30, 2022	4.83 years		2.20 years	1.95 years

Cash-settled share-based compensation	RSUs	PSUs	DSUs
Outstanding, January 1, 2022	172,775	168,442	128,208
Granted	57,110	57,110	33,483
Exercised	—	—	—
Expired/Forfeited	(840)	(840)	—
Outstanding, June 30, 2022	<u>229,045</u>	<u>224,712</u>	<u>161,691</u>
Weighted average remaining contractual life, June 30, 2022	<u>1.70 years</u>	<u>1.55 years</u>	<u>—</u>

The following table summarizes the inputs used in the calculation of the grant date fair values for each of the stock units issued under the Plan during 2022 and the LTIP during 2021:

	<u>Options</u>	<u>RSUs</u>	<u>PSUs</u>	<u>DSUs</u>
Key assumptions used for 2022 grants:				
Weighted average grant date fair value (per unit)	\$ 4.56	\$ 12.62	\$ 12.62	\$ 9.71
Dividend yield	2.5 %	— %	— %	— %
Expected volatility	43.0 %	— %	— %	— %
Risk-free interest rate	2.5 %	— %	— %	— %
Exercise price	\$ 13.22	\$ —	\$ —	\$ —
Forfeiture rate	— %	— %	— %	— %
Fair value of share-based compensation at grant date	\$ 698	\$ 1,211	\$ 1,945	\$ 325
	<u>Options</u>	<u>RSUs</u>	<u>PSUs</u>	<u>DSUs</u>
Key assumptions used for 2021 grants:				
Weighted average grant date fair value (per unit)	\$ 5.66	\$ 14.96	\$ 14.96	\$ 15.34
Dividend yield	2.1 %	— %	— %	— %
Expected volatility	45.0 %	— %	— %	— %
Risk-free interest rate	1.1 %	— %	— %	— %
Exercise price	\$ 15.34	\$ —	\$ —	\$ —
Forfeiture rate	— %	— %	— %	— %
Fair value of share-based compensation at grant date	\$ 1,056	\$ 1,728	\$ 2,788	\$ 325

The following table shows the share-based compensation expense recorded in the consolidated statements of profit or loss during the three and six months ended June 30, 2022 and June 30, 2021:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Options	\$ 293	\$ 25	\$ 479	\$ 50
RSUs	226	127	346	637
PSUs	442	99	787	606
DSUs	(4)	(280)	(474)	270
Total	<u>\$ 957</u>	<u>\$ (29)</u>	<u>\$ 1,138</u>	<u>\$ 1,563</u>

NOTE 16 RELATED PARTY TRANSACTIONS

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

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

16.1 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 and six months ended June 30, 2022, Neo purchased \$0.5 million and \$1.1 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$18.5 million and \$44.8 million, and received services from GQD and its associates amounting to \$6.7 million and \$12.8 million, respectively.

For the three and six months ended June 30, 2022, Neo sold Magnequench Powders and performed services amounting to \$2.7 million and \$5.4 million, respectively, to TMT. For the three and six months ended June 30, 2022, Neo sold oxides to Keli amounting to \$0.7 million and \$1.4 million, respectively.

For the three and six months ended June 30, 2021, Neo purchased \$0.5 million and \$1.0 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$14.1 million and \$34.5 million, and received services from GQD amounting to \$6.7 million and \$10.6 million, respectively.

For the three and six months ended June 30, 2021, Neo sold Magnequench Powders and performed services, respectively, amounting to \$2.2 million and \$3.9 million, respectively, to TMT. For the three and six months ended June 30, 2021, Neo sold oxides to Keli amounting to \$1.1 million and \$2.5 million, respectively.

16.2 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 three and six months ended June 30, 2022 and 2021.

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 and six months ended June 30, 2022, purchases from Qian Dong were \$nil and \$1.6 million, respectively. For the three and six months ended June 30, 2022, sales to Toda were \$0.7 million and \$1.2 million, respectively.

For the three and six months ended June 30, 2021, purchases from Qian Dong were \$0.7 million and \$1.1 million, respectively. Sales to Toda for the three and six months ended June 30, 2021 were \$0.3 million and \$0.5 million, respectively.

16.3 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 and six months ended June 30, 2022, sales to Atatsu were \$0.1 million and \$0.4 million, respectively. For the three and six months ended June 30, 2021, sales to Atatsu were \$0.1 million and \$0.2 million, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Sale of goods and services to related parties	\$ 5,509	\$ 5,223	\$ 9,601	\$ 8,520
Purchase of goods and services from related parties	25,581	22,021	60,289	47,055
			June 30, 2022	December 31, 2021
Trade balances:				
from related parties		\$ 2,969	\$	2,070
due to related parties		(8,531)		(25,925)
Total		\$ (5,562)	\$	(23,855)

NOTE 17 DIRECTORS AND KEY MANAGEMENT COMPENSATION

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

Neo's short-term compensations are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Directors	\$ 97	\$ 87	\$ 196	\$ 173
Key Executive Management	1,093	1,079	3,205	2,038
Total	\$ 1,190	\$ 1,166	\$ 3,401	\$ 2,211

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Directors	\$ (4)	\$ (279)	\$ (474)	\$ 271
Key Executive Management	816	226	1,268	1,136
Total	\$ 812	\$ (53)	\$ 794	\$ 1,407

NOTE 18 PROVISIONS

During the three and six months ended June 30, 2022, Neo has recorded additional provisions of \$0.6 million and \$6.5 million, respectively, for the disposal of NORM and estimated potential damages for historical volumes related to ongoing patent litigation.

	Total
Balance as at January 1, 2022	20,687
Reclassified to accounts payable and other accrued charges	(2,391)
Provisions made, in the period	6,532
Payments made, in the period	(1,045)
Currency translation adjustment	(319)
Balance as at June 30, 2022	\$ 23,464
Current portion	\$ 651
Non-current portion	\$ 22,813

NOTE 19 FINANCIAL RISK MANAGEMENT

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

19.1 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.

19.2 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 June 30, 2022:

	Chinese Renminbi	Euro	USD	Thai Baht	Canadian Dollar	British Pound
Cash and cash equivalents	\$ 2,330	\$ 2,784	\$ 4,230	\$ 1,837	\$ 2,219	\$ 1,452
Accounts receivable	942	2,637	8,376	6,219	—	—
Income taxes receivable	—	—	—	—	—	—
Other receivable	195	2,890	—	99	90	—
Bank advances and other short-term debt	—	—	—	—	—	—
Current portion of long-term debt	—	(733)	—	—	—	—
Long-term debt	—	(3,796)	—	—	—	—
Accounts payable and accrued liabilities	(4,399)	(10,389)	(22)	(1,591)	(1,991)	(665)
Lease obligations	(150)	(18)	—	(16)	(40)	—
Income taxes payable	(888)	(3,157)	—	—	(576)	—
Net financial assets (liabilities)	\$ (1,970)	\$ (9,782)	\$12,584	\$ 6,548	\$ (298)	\$ 787

The following table shows the impact of a one-percentage point strengthening or weakening of foreign currencies against the U.S. dollar as of June 30, 2022 for Neo's financial instruments denominated in non-functional currencies:

	Chinese Renminbi	Euro	Thai Baht	Canadian Dollar	British Pound
1% Strengthening					
Net earnings before tax	\$ (20)	\$ (98)	\$ 65	\$ (3)	\$ 8
1% Weakening					
Net earnings before tax	20	98	(65)	3	(8)

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 \$47 thousand gain or loss, respectively.

19.3 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 June 30, 2022, Neo had outstanding bank loans of \$4.5 million which bears interest at a rate equal to Euribor plus 1.95% per annum. Neo also had approximately \$11.9 million in bank advances and other short-term loans with short-term maturities at June 30, 2022. As a whole, Neo's exposure to interest rate risk is minimal.

19.4 Credit risk

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

Under IFRS 9, Neo calculates a loss allowance using the ECL impairment model and the gross carrying amount of accounts receivable generally represents the maximum credit exposure. As at June 30, 2022, the loss allowance was approximately \$0.5 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 June 30, 2022, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

19.5 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 20](#). 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 June 30, 2022:

Financial liabilities	1 year	2-3 years	4-5 years	Beyond 5 years	Total
Bank advances and other short-term debts	\$ 11,940	\$ —	\$ —	\$ —	\$ 11,940
Accounts payable and other accrued charges	62,756	—	—	—	62,756
Derivative liability ⁽¹⁾	15,961	—	—	—	15,961
Long-term debt ⁽²⁾	733	1,466	2,330	—	4,529
Provisions	651	22,813	—	—	23,464
Lease obligations	1,189	1,205	44	29	2,467
Other liabilities	1,199	1,111	72	224	2,606
Total	\$ 94,429	\$ 26,595	\$ 2,446	\$ 253	\$ 123,723

Notes:

- (1) The fair value of the put option on shares of the remaining shareholder of Buss & Buss
- (2) Estonian credit facility - see [Note 8.3.3](#)

NOTE 20 CAPITAL DISCLOSURES

Neo's objectives when managing its capital are:

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

Neo defines its capital as follows:

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

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

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

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

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

NOTE 21 SUBSEQUENT EVENTS

21.1 Dividends payable to equity holders of Neo

On August 11, 2022, the Board of Directors declared a quarterly dividend of Cdn \$0.10 per common share payable in cash on September 29, 2022, to common shareholders of record at the close of business on September 20, 2022.