neo
Performance Materials

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2019

Management's Discussion and Analysis

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

The following Management's Discussion and Analysis ("**MD&A**") for Neo Performance Materials Inc. ("**Neo**") should be read in conjunction with the MD&A and the audited consolidated financial statements for the year ended December 31, 2018, dated March 10, 2019, available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com. Unless otherwise stated, references in this section to "Neo", "our", "we" or "Group", refer to Neo Performance Materials Inc. and its consolidated subsidiaries.

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

This discussion contains forward-looking statements and information. The actual results, performance and achievements could differ materially from those implied by these forward-looking statements as a result of various factors, including those discussed in the MD&A dated March 10, 2019 under "*Risk Factors*". See "*Forward-Looking Information*".

The discussion and analysis in this MD&A are based upon information available to management as of May 10, 2019. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur that could affect Neo in the future.

1. Forward-Looking Information

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

The forward-looking information is only provided as of the date of this MD&A, May 10, 2019, and is subject to change as a result of new information, future events or other circumstances, as discussed above, in which case the forward-looking information will be updated by Neo as required by law.

2. Overview

Neo has established itself as a global leader in the innovation and manufacturing of rare earth- and rare metal-based functional materials, which are essential inputs to high technology, high-growth, future-facing industries. Neo has approximately 1,819 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**"). Neo is the only non-Chinese company with a license to separate rare earth elements ("**REE**s") in China, which provides unique competitive advantages and a degree of vertical integration. Since 1994, Neo has leveraged its rare earth separation expertise to innovate and grow into a leading manufacturer of functional engineered materials for specialty end markets. This includes establishing the #1 global market position for powders used in bonded and hot-deformed magnets, a top-three global market position in auto emission control catalysts, the #1 gallium trichloride ("$\mathbf{GaCl_3}$") producer for light-emitting diodes ("**LED**s"), and growth opportunities into new end markets such as waste-water treatment. Neo is organized along three business segments: Magnequench, Chemicals & Oxides ("**C&O**") and Rare Metals, as well as the Corporate segment.

Magnequench

The Magnequench segment, with over 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**") magnets. These powders are formed through Magnequench's market-leading technology related to the development, processing and manufacturing of magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench powder using a blend of rare earth oxides ("**REO**s") as the primary input. These powders are used in the production of bonded permanent magnets that are components in automotive motors, micro motors, traction motors, sensors and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

C&O

The C&O segment manufactures and distributes a broad range of light and heavy rare earth functional materials that have become an indispensable part of modern life. Neo's world-class rare earth processing and materials manufacturing capabilities enable Neo to meet increasingly demanding specifications from manufacturers that need custom engineered materials. Applications from these products include auto catalysts, consumer electronics, petroleum refining, hybrid and electric vehicles and wastewater treatment.

Rare Metals

The Rare Metals segment sources, reclaims, produces, refines and markets high value 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 their use in 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. and Beijing, China. The functions of this group include finance, administration, information technology, accounting and legal.

3. Selected Financial Highlights

($000s, except volume)	Three Months Ended March 31,		
	2019	2018	2017
Revenue			
Magnequench	$ 47,555	$ 55,734	$ 47,444
C&O	43,573	45,156	43,066
Rare Metals	21,531	22,771	18,421
Corporate / Eliminations	(4,129)	(3,476)	(2,269)
Consolidated Revenue	**$ 108,530**	**$ 120,185**	**$ 106,662**
Operating Income (Loss)			
Magnequench	$ 9,481	$ 13,341	$ 11,272
C&O	6,626	2,117	4,660
Rare Metals	157	2,479	1,203
Corporate / Eliminations	(25)	(4,432)	(6,255)
Consolidated Operating Income	**$ 16,239**	**$ 13,505**	**$ 10,880**
Adjusted EBITDA (1)			
Magnequench	$ 10,929	$ 15,475	$ 13,445
C&O	6,988	3,520	8,266
Rare Metals	1,175	3,796	2,621
Corporate / Eliminations	(2,606)	(3,503)	(3,692)
Consolidated Adjusted EBITDA	**$ 16,486**	**$ 19,288**	**$ 20,640**
Volume (in mt)			
Magnequench	1,445	1,527	1,659
C&O	2,135	2,007	2,290
Rare Metals	118	135	93
Corporate / Eliminations	(91)	(70)	(60)
Consolidated Volumes	**3,607**	**3,599**	**3,982**
Net Income	**$ 12,227**	**$ 8,852**	**$ 8,225**
Attributable to:			
Equity holders of Neo	12,247	8,667	8,178
Non-controlling interest	(20)	185	47
Earnings per share attributable to equity holders of Neo			
Basic	$ 0.31	$ 0.22	$ 0.21
Diluted	$ 0.31	$ 0.21	$ 0.20
Adjusted Net Income (2)	**$ 8,140**	**$ 10,268**	**$ 11,170**
Attributable to:			
Equity holders of Neo	8,160	10,083	11,123
Non-controlling interest	(20)	185	47
Adjusted Earnings per Share attributable to equity holders of Neo (2):			
Basic	$ 0.21	$ 0.25	$ 0.28
Diluted	$ 0.20	$ 0.25	$ 0.28
Capital expenditures	$ 2,665	$ 2,305	$ 1,364
Cash taxes paid	$ 1,901	$ 2,896	$ 3,064
Dividends paid to shareholders	$ 2,850	$ 3,013	$ —
Repurchase of common shares under Normal Course Issuer Bid	$ 934	$ 224	$ —

	December 31,		
	2019	2018	2017
Cash and cash equivalents	$ 76,136	$ 71,015	$ 96,805
Debt	$ 5,631	$ 3,970	$ 181

Notes:

(1) Neo uses references to Adjusted OIBDA and Adjusted EBITDA interchangeably as the use of adjustments in each measure provides the same calculated outcome of operating performance. See *"Non-IFRS Financial Measures"* and details of computation of Adjusted OIBDA.

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

Highlights for the three months ended March 31, 2019

Consolidated Results

- For the three months ended March 31, 2019, revenues were $108.5 million, a decrease of $11.7 million or 9.7% compared to the three months ended March 31, 2018. The majority of the revenue decrease was in the Magnequench segment where revenues declined $8.2 million or 14.7%. This decrease is mainly attributed to lower rare earth commodity prices which are passed through to Neo's customers. The continued slower activity in automotive as well as a general slowdown in China adversely impacted Neo's growth in the quarter.

- Operating income rose to $16.2 million in the first quarter of 2019, an increase of $2.7 million or 20.2% from the prior-year period. Net income rose to $12.2 million, an increase of $3.4 million or 38.1% over the prior-year period. Both operating income and net income were affected by the termination of the arrangement agreement with Luxfer Holdings plc ("**Luxfer**") as announced on March 10, 2019.

- Adjusted EBITDA in the first quarter of 2019 was $16.5 million, compared to $19.3 million in the first quarter of 2018, a decrease of $2.8 million or 14.5%. Magnequench and Rare Metals had lower Adjusted EBITDA while C&O saw an improvement.

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

- Neo continues to have a strong financial position. As at March 31, 2019, Neo had $76.1 million in cash and $5.6 million in debt.

Magnequench Segment

- For the three months ended March 31, 2019, sales volume decreased by 5.4% compared to the prior year. Magnequench volumes were negatively impacted by a general slowdown in the China and automotive markets which began in the second half of 2018. Magnequench continued to see growth in newer platforms, including traction motors and other efficient motor applications, but saw declines in its more established products that are more closely tied to markets that can exhibit quarterly or seasonable volatility. Revenues were down $8.2 million, or 14.7%, primarily related to lower rare earth commodity prices which Neo passes through to its customers.

- Adjusted EBITDA was $10.9 million compared to $15.5 million, a decrease of $4.5 million or 29.4%. Similar to revenues and aside from volumes, Adjusted EBITDA was lower due to the impact of the timing of pass-through rare earth pricing. The rare earth raw materials cost pass-through mechanic, a key feature of Neo's strategic focus on value-add margins, updates selling prices on a lagged basis, generally monthly and quarterly. A rapid change in rare earth costs in the latter half of 2017 had a lagging pass-through effect which translated into higher selling prices in the last quarter of 2017 and first three months of 2018. Rare earth costs (and associated pass-through pricing) have been relatively stable in the second half of 2018 and into the first three months of 2019.

Chemicals and Oxide (C&O) Segment

- In the three months ended March 31, 2019, auto-catalyst product volumes were adversely impacted by lower demand due to the slowdown in the automotive market continuing from the second half of 2018. Three-way catalysts remained stable year-over-year while diesel products continued to see decreases due to changes in market dynamics that have affected diesel sales since the second quarter of 2018. The first three months ended March 31, 2018 had relatively strong diesel sales (compared to the rest of 2018). In the first quarter of 2018, the C&O segment was adversely impacted by $3.0 million of premium freight costs related to a previous production change. There was no premium freight charges in the first quarter of 2019.

- For the three months ended March 31, 2019, the rare earth separation business benefited from the timing of high-value spot sales orders in the quarter (which is common in the rare earth separation business), and this had a positive impact on operating income and EBITDA. There were few spot sales in the first quarter of 2018.

Rare Metals Segment

- For the three months ended March 31, 2019, Rare Metals was adversely impacted by the continued effect of a rapid price decline in tantalum-based products that occurred in late 2018. The Rare Metals segment has considerable raw material on hand so when material prices change, there is a lead-lag impact into current period results as the operations is processing and selling material on hand purchased in a prior period.

- The segment saw stronger demand for hafnium-based products, as the business was successful in generating additional demand from both new and existing customers. The Rare Metals segment continues to develop new products and focus on value-added margins to mitigate short-term variations in its earnings due to material price volatility.

Cash and Other Highlights for the three months ended March 31, 2019

- Neo continues to have a strong financial position. As at March 31, 2019, Neo had $76.1 million in cash and $5.6 million in debt.

- Cash provided by operating activities was $9.2 million. Neo invested $2.7 million in capital expenditures in property, plant and equipment and intangible assets, and paid $1.9 million in cash taxes in the three months ended March 31, 2019.

- For the three months ended March 31, 2019, Neo paid dividends to its shareholders of $2.9 million. As part of the Normal Course Issuer Bid (the "**Bid**") program, Neo purchased and canceled 99,623 shares with an aggregate disbursement of $0.9 million.

- On March 10, 2019, Luxfer, 2671219 Ontario Inc. (the "**Purchaser**") and Neo mutually agreed to terminate the arrangement agreement to acquire the issued and outstanding common shares of Neo for a combination of cash and stock (the "**Luxfer Transaction**"). Under the termination agreement, Luxfer has agreed to pay all reasonable expenses incurred by Neo in connection with the termination of the arrangement agreement up to a maximum of $3.5 million. Neo received the payment on April 5, 2019.

4. Consolidated Results of Operations

Comparison of the three months ended March 31, 2019 to the three months ended March 31, 2018:

($000s)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Revenue	108,530	120,185
Costs of sales		
Costs excluding depreciation and amortization	78,389	83,686
Depreciation and amortization	2,410	2,510
Gross profit	**27,731**	**33,989**
Expenses		
Selling, general and administrative	7,296	13,146
Share-based compensation	(390)	1,090
Depreciation and amortization	1,985	1,882
Research and development	2,601	4,366
	11,492	20,484
Operating income	**16,239**	**13,505**
Other expense	(126)	(34)
Finance costs, net	(1,382)	(237)
Foreign exchange gain (loss)	93	(171)
Income from operations before income taxes and equity income (loss) of associates	**14,824**	**13,063**
Income tax expense	(2,835)	(3,191)
Income from operations before equity income (loss) of associates	**11,989**	**9,872**
Equity income (loss) of associates (net of income tax)	238	(1,020)
Net income	**$ 12,227**	**$ 8,852**
Attributable to:		
Equity holders of Neo	12,247	$ 8,667
Non-controlling interest	(20)	185
	$ 12,227	**$ 8,852**
Earnings per share data attributable to equity holders of Neo:		
Basic	$ 0.31	$ 0.22
Diluted	$ 0.31	$ 0.21

Revenue

Neo's consolidated revenue for the three months ended March 31, 2019 was $108.5 million, compared to $120.2 million for the same period in the prior year; a decrease of $11.7 million or 9.7%.

For the three months ended March 31, 2019, Magnequench segment revenue was $47.6 million, compared to $55.7 million in the prior year; a decrease of $8.2 million or 14.7%. The Magnequench segment represented 43.8% of consolidated revenue in the three months ended March 31, 2019.

For the three months ended March 31, 2019, C&O segment revenue was $43.6 million, compared to $45.2 million for the prior year; a decrease of $1.6 million or 3.5%. The C&O segment represented 40.1% of consolidated revenue in the three months ended March 31, 2019.

For the three months ended March 31, 2019, Rare Metals segment revenue was $21.5 million, compared to $22.8 million for the prior year; a decrease of $1.2 million or 5.4%. The Rare Metals segment represented 19.8% of consolidated revenue in the three months ended March 31, 2019.

Inter-segment revenue in the three months ended March 31, 2019 was $4.1 million, compared to $3.5 million in the three months ended March 31, 2018. These have been eliminated on consolidation from the C&O segment revenue, as C&O sold product to Magnequench in the respective periods. The products sold to Magnequench are potential marketable third-party sales and are generally sold at fair market value.

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

Costs of sales

Consolidated costs of sales, excluding depreciation and amortization, was $78.4 million in the three months ended March 31, 2019, compared to $83.7 million in the corresponding period in 2018; a decrease of $5.3 million or 6.3%. Costs of sales, excluding depreciation and amortization, decreased as a result of lower revenue in the three months ended March 31, 2019, in addition to the impacts of product cost, product mix, and operational changes in the business segments. Additionally, in the auto-catalyst segment, Neo incurred $3.0 million of premium freight costs in the three months ended March 31, 2018, as the supply chain replenished following the implementation of the new wastewater treatment system in one manufacturing location.

Consolidated depreciation and amortization in costs of sales was $2.4 million for the three months ended March 31, 2019 compared to $2.5 million in the same period of the prior year. The reduction in depreciation and amortization was mostly attributable to a lower asset base as a result of some assets being further depreciated.

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

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

Neo's SG&A expense consists primarily of personnel and related costs, including legal, accounting and other professional fees and information technology costs. For the three months ended March 31, 2019, SG&A expense was $7.3 million, compared to $13.1 million in the same period last year. The lower SG&A costs relate primarily to a recovery of $1.9 million ($3.5 million receivable from Luxfer, less costs incurred in the current quarter) for expenses Neo incurred related to the termination of the Luxfer Transaction, a recovery of value bonus expenses (cumulative expense adjustment based on the termination of the arrangement agreement), as well as lower legal costs associated with outstanding intellectual property disputes.

Share-based compensation

For the three months ended March 31, 2019, there was a $0.4 million recovery of share-based compensation compared to an expense of $1.1 million in the three months ended March 31, 2018. During the three months ended March 31, 2019, there has been a revision of the vesting period from the previous estimate for Share Options and Restricted Share Units ("**RSUs**") pursuant to the termination of the Luxfer Transaction. Neo subsequently revised and adjusted the recognized share-based compensation expense cost on a cumulative basis. This resulted in a share-based compensation recovery in the three months ended March 31, 2019.

There were no new grants made for the three months ended March 31, 2019, and none were made in the comparable period of 2018.

Depreciation and amortization

Depreciation and amortization unrelated to production for the three months ended March 31, 2019 was $2.0 million, which is comparable to $1.9 million in the same period in 2018.

R&D

For the three months ended March 31, 2019, R&D expense was $2.6 million, compared to $4.4 million in the three months ended March 31, 2018, a decrease of $1.8 million or 40.4%. Neo continues to prioritize making strategic and appropriate investments in R&D to develop new applications for its products and to strategically position Neo to meet customers' needs for technical solutions. Certain R&D costs are project-based and may be higher or lower in any given period.

Other expense

For the three months ended March 31, 2019, other expense was nominal, as was the case in the prior-year period.

Finance costs, net

Finance costs, net, for the three months ended March 31, 2019 were $1.4 million, compared to $0.2 million in the same period last year. Neo's finance costs for the three months ended March 31, 2019 were primarily related to the re-measurement of Neo's derivative liability, which is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary, Buss & Buss. This liability is re-measured at each reporting period with the change in fair value recorded to finance costs. For the three months ended March 31, 2019, Neo has nominal amounts of finance costs from debts. As at March 31, 2019, $5.6 million was drawn from the revolving lines of credit.

Income tax expense

For the three months ended March 31, 2019, Neo had an income tax expense of $2.8 million on income from operations before taxes of $14.8 million. For the three months ended March 31, 2018, Neo had an income tax expense of $3.2 million on income from operations before taxes of $13.1 million.

Neo's effective tax rate was 19.1% and 24.4% for the three months ended March 31, 2019 and 2018, respectively. The difference in tax rate is due primarily to changes in the mix and volume of earnings in different tax jurisdictions.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of $2.7 million and $2.3 million for the three months ended March 31, 2019 and 2018, respectively. The majority of these capital expenditures related to capital projects performed at the Zibo, Tianjin and Silmet facilities. These capital projects included a combination of maintenance capital (to assist with the continuing development and operations of Neo), growth capital (to assist in adding new capacity or new products) and strategic capital (tied to longer-term strategic planning initiatives).

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

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

Of the various lawsuits initiated and underway, in March 2016, the German Courts have ruled that certain of Neo Chemicals & Oxides (Europe) Ltd's ("**Neo C&O (Europe)**") products infringed three expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1("**846**"), and European patent #0605274 ("**274**"). 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) filed an appeal in each of the three infringement actions and those appeals are still pending.

Neo C&O (Europe) challenged the validity of patents 984, 846 and 274 before the German Federal Patent Court, which upheld patents 984 and 846, but invalidated patent 274. Both Neo C&O (Europe) and Rhodia appealed the rulings of the German Federal Patent Court to the German Supreme Court. The German Supreme Court has upheld the validity of patents 984 and 274 but narrowed the scope of both patents. The appeal from the German Federal Patent Court's ruling upholding patent 846 is still pending.

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

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) was granted permission to appeal this ruling, and that appeal is still pending.

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

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

On September 26, 2018, the PRB again ruled in favor of ZAMR by invalidating all product claims associated with patent ZL 200710146613.6, held by Daiichi Kigenso Kagaku Kogyo Co. ("**DKKK**"). 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. DKKK and Rhodia Operations have appealed these decisions.

In January 2019, the PRB ruled in favor of ZAMR by invalidating all patent claims associated with patent ZL 97195463.1. On February 28, 2019, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by Rhodia Operations and DKKK alleging infringement of patent ZL 97195463.1. Rhodia Operations and DKKK have appealed these decisions.

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

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

Patent Reference	Jurisdiction of Claim	Specified Damages by Claimant
Chinese patent ZL 03817110.4	China	$3.0 million
Chinese patent ZL 200710146613.6	China	$2.3 million
European patent 0863846 B1	Germany	$8.4 million
European patent 0735984 B1	Germany	$6.1 million
Chinese patent ZL 94194552.9	China	$0.8 million
Chinese patent ZL 96196505.3	China	$6.8 million
Chinese patent ZL 97195463.1	China	$0.8 million
European & UK patents 1435338 B1	UK	Not specified
European & UK patents 1435338 B1	Germany	Not specified
European patent 0605274 B1	Germany	Not specified
European patent 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified

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

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

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

5. Non-IFRS Financial Measures

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

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

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

"**Adjusted Net Income or Loss**" is defined as net income or loss before foreign exchange loss (gain), share and value-based compensation, impairment of goodwill and other long-lived assets, and non-recurring transaction costs, net of the related tax effects and adjustment to deferred tax assets;

"**Adjusted OIBDA**" is defined as OIBDA before share and value-based compensation, impairment of goodwill and other long-lived assets, and non-recurring transaction costs;

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

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

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

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

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

"OIBDA" is defined as operating income before depreciation and amortization.

Neo uses references to Adjusted OIBDA and Adjusted EBITDA interchangeably as the adjustments in each measure provides the same calculated outcome of operating performance. Management believes that the use of these adjustments (as defined in Adjusted EBITDA and Adjusted OIBDA) provides a more consistent measure of underlying operating performance, with comparability among periods that investors may find useful. The exclusion of certain adjustments does not imply that they are non-recurring.

The following tables illustrate the comparison of the Adjusted OIBDA for the three months ended March 31, 2019 to the three months ended March 31, 2018:

($000s, except volume)	**Three Months Ended March 31,**			
	2019	**2018**	**Change**	**%**
Operating income	**$ 16,239**	**$ 13,505**	**$ 2,734**	20.2 %
Add back:				
Depreciation and amortization included in Costs of Sales	2,410	2,510	(100)	
Depreciation and amortization	1,985	1,882	103	
OIBDA	**20,634**	**17,897**	**2,737**	15.3 %
Share and valued-based compensation (1)	(2,199)	1,391	(3,590)	
Non-recurring transaction cost (2)	(1,949)	—	(1,949)	
Adjusted OIBDA	**$ 16,486**	**$ 19,288**	**$ (2,802)**	(14.5)%
Adjusted OIBDA margin	15.2%	16.0%		
Revenue	$ 108,530	$ 120,185	$ (11,655)	(9.7)%
Sales volume (tonnes)	3,607	3,599	8	0.2 %

Notes:

(1) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation (recovery)/expense of $(1,809) and $302 is included in selling, general, and administration expenses for the three months ended March 31, 2019 and three months ended March 31, 2018, respectively. Neo has removed both the share and value-based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(2) These represents legal, professional advisory fees and other transaction costs incurred netted with the amounts recoverable from Luxfer for the termination of the Luxfer Transaction. These net recoveries were included in selling, general, and administration expense.

For the three months ended March 31, 2019, Adjusted OIBDA was $16.5 million or 15.2% of revenue, compared to $19.3 million or 16.0% of revenue for the three months ended March 31, 2018; a decrease of $2.8 million or 14.5%.

Adjusted OIBDA for the three months ended March 31, 2019, compared to the corresponding period in 2018, was higher in the C&O segment, but lower in the Magnequench and Rare Metals segments.

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

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

($000s)	Three Months Ended March 31,	
	2019	**2018**
Net income	**$ 12,227**	**$ 8,852**
Add back (deduct):		
Finance costs, net	1,382	237
Income tax expense	2,835	3,191
Depreciation and amortization included in Costs of Sales	2,410	2,510
Depreciation and amortization	1,985	1,882
EBITDA	**20,839**	**16,672**
Adjustments to EBITDA:		
Equity (income) loss in associates	(238)	1,020
Other expense [(1)]	126	34
Foreign exchange (gain) loss [(2)]	(93)	171
Share and value-based compensation (recovery) expense [(3)]	(2,199)	1,391
Non-recurring transaction cost [(4)]	(1,949)	—
Adjusted EBITDA	**$ 16,486**	**$ 19,288**
Adjusted EBITDA Margins	*15.2%*	*16.0%*
Less:		
Capital expenditures	2,665	2,305
Free Cash Flow	**$ 13,821**	**$ 16,983**
Free Cash Flow Conversion [(5)]	83.8%	88.0%

Notes:

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

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

(3) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation (recovery)/expense of $(1,809) and $302 is included in selling, general, and administration expenses for the three months ended March 31, 2019 and three months ended March 31, 2018, respectively. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(4) These represents legal, professional advisory fees and other transaction costs incurred netted with the amounts recoverable from Luxfer for the termination of the Luxfer Transaction. These net recoveries were included in selling, general, and administration expense.

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

Reconciliation of Net Income to Adjusted Net Income:

($000s)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net income	**$ 12,227**	**$ 8,852**
Adjustments to net income:		
Foreign exchange (gain) loss [1]	(93)	171
Share and value-based compensation (recovery) expense [2]	(2,199)	1,391
Non-recurring transaction cost [3]	(1,949)	—
Tax impact of the above items	154	(146)
Adjusted net income	**$ 8,140**	**$ 10,268**
Attributable to:		
Equity holders of Neo	$ 8,160	$ 10,083
Non-controlling interest	$ (20)	$ 185
Weighted average number of common shares outstanding:		
Basic	39,641,879	39,920,140
Diluted	39,964,500	40,402,139
Adjusted earnings per share attributable to equity holders of Neo:		
Basic	$ 0.21	$ 0.25
Diluted	$ 0.20	$ 0.25

Notes:

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

(2) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation (recovery)/expense of $(1,809) and $302 is included in selling, general, and administration expenses for the three months ended March 31, 2019 and three months ended March 31, 2018, respectively. Neo has removed both the share and value-based compensation expense from net income to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(3) These represents legal, professional advisory fees and other transaction costs incurred netted with the amounts recoverable from Luxfer for the termination of the Luxfer Transaction. These net recoveries were included in selling, general, and administration expense.

6. Discussion and Analysis of Reportable Segments

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

6.1 Magnequench

($000s, except volume)	Three Months Ended March 31, 2019	2018	Change	%
Operating income	**$ 9,481**	**$ 13,341**	**$ (3,860)**	(28.9)%
Add back:				
Depreciation and amortization included in costs of sales	569	605	(36)	
Depreciation and amortization	1,373	1,382	(9)	
OIBDA	**11,423**	**15,328**	**(3,905)**	(25.5)%
Share and value-based compensation [(1)]	(494)	147	(641)	
Adjusted OIBDA	**$ 10,929**	**$ 15,475**	**$ (4,546)**	(29.4)%
Adjusted OIBDA margin	23.0%	27.8%		
Revenue	$ 47,555	$ 55,734	$ (8,179)	(14.7)%
Sales volume (tonnes)	1,445	1,527	(82)	(5.4)%

Notes:

(1) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation (recovery)/expense of $(579) and $93 is included in selling, general, and administration expenses for the three months ended March 31, 2019 and three months ended March 31, 2018, respectively. Neo has removed both the share and value-based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

For the three months ended March 31, 2019, revenue in the Magnequench segment was $47.6 million, compared to $55.7 million in the three months ended March 31, 2018; a decrease of $8.2 million or 14.7%. For the three months ended March 31, 2019, volume decreased to 1,445 tonnes, compared to 1,527 tonnes in the same period in 2018; a decrease of 82 tonnes or 5.4%. Generally, the differing rates of change for revenue and volumes are primarily attributed to changes in commodity rare earth prices. Magnequench has material pass-through agreements with the vast majority of its customers, which enables Magnequench to pass through changes in rare earth costs into selling price on a lagged basis.

For the three months ended March 31, 2019, operating income was $9.5 million, a decrease of $3.9 million or 28.9% when compared to operating income for the three months ended March 31, 2018.

Volumes were lower in the three months ended March 31, 2019 due to the slowdown in auto sales and slower economic performance in China, generally, which continued from the second half of 2018. Accordingly, Magnequench saw volume decreases in some of its longer-running and established programs. However, Magnequench continued to see growth in the quarter related to newer products, including traction motors for hybrid and electric vehicles as well as programs that are still ramping up volumes to full production levels. Other global end markets, outside of China, saw more stability in volumes compared to past quarters. In addition, Magnequench is benefiting from growth in the utilization of its magnetic materials on a per-vehicle basis.

For the three months ended March 31, 2019, Adjusted OIBDA was $10.9 million, a decrease of $4.5 million compared to the same period of the prior year. Aside from volume, the decrease in Adjusted OIBDA in the three months ended March 31, 2019 is primarily attributable to the impact of the timing of pricing pass-through mechanics on rare earth inputs. The pass-through mechanism, a key feature of Neo's strategic focus on value-add margins, changes selling prices on a lagged basis, generally monthly and quarterly. A rapid change in rare earth costs in the latter half of 2017 had a lagging pass-through effect translating into higher selling prices in the last quarter of 2017 and first three months of 2018. Rare earth costs (and associated pass-through pricing) has been relatively stable in the second half of 2018 and into the first three months of 2019.

6.2 C&O

($000s, except volume)	Three Months Ended March 31,			
	2019	**2018**	**Change**	**%**
Operating income	**$ 6,626**	**$ 2,117**	**$ 4,509**	213.0 %
Add back:				
Depreciation and amortization included in costs of sales	778	810	(32)	
Depreciation and amortization	386	350	36	
OIBDA	**7,790**	**3,277**	**4,513**	137.7 %
Share and value-based compensation (1)	(802)	243	(1,045)	
Adjusted OIBDA	**$ 6,988**	**$ 3,520**	**$ 3,468**	98.5 %
Adjusted OIBDA margin	16.0%	7.8%		
Revenue	$ 43,573	$ 45,156	$ (1,583)	(3.5)%
Sales volume (tonnes)	2,135	2,007	128	6.4 %

Notes:

(1) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation (recovery)/expense of $(774) and $136 is included in selling, general, and administration expenses for the three months ended March 31, 2019 and three months ended March 31, 2018, respectively. Neo has removed both the share and value-based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

For the three months ended March 31, 2019, revenue in the C&O segment was $43.6 million, compared to $45.2 million for the corresponding period in 2018; a decrease of $1.6 million or 3.5%. Operating income for the three months ended March 31, 2019 increased to $6.6 million from $2.1 million in the three months ended March 31, 2018; an increase of $4.5 million or 213.0%.

For the three months ended March 31, 2019, C&O saw strong improvements in its rare earth separation business and benefited from the timing of some high-value spot sales orders in the quarter (which is common in the rare earth separation business). Auto-catalyst product volumes were adversely impacted by lower demand due to the slowdown in the automotive market continuing from the second half of 2018. Three-way catalysts remained stable year-over-year while diesel products continued to see decreases due to changes in market dynamics that have affected diesel sales since the second quarter of 2018. The three months ended March 31, 2018 had relatively strong diesel sales, compared to the rest of 2018. In the three months ended March 31, 2018, the C&O segment was adversely impacted by $3.0 million of premium freight costs related to a previous production change that did not repeat in 2019.

For the three months ended March 31, 2019, Adjusted OIBDA in the C&O segment was $7.0 million, compared to $3.5 million in the prior year period; an increase of $3.5 million or 98.5%.

6.3 Rare Metals

($000s, except volume)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Change	%
Operating income	**$ 157**	**$ 2,479**	**$ (2,322)**	(93.7)%
Add back:				
Depreciation and amortization included in costs of sales	1,063	1,096	(33)	
Depreciation and amortization	142	134	8	
OIBDA	**1,362**	**3,709**	**(2,347)**	(63.3)%
Share and value-based compensation [(1)]	(187)	87	(274)	
Adjusted OIBDA	**$ 1,175**	**$ 3,796**	**$ (2,621)**	(69.0)%
Adjusted OIBDA margin	5.5%	16.7%		
Revenue	$ 21,531	$ 22,771	$ (1,240)	(5.4)%
Sales volume (tonnes)	118	135	(17)	(12.6)%

Notes:

(1) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation (recovery)/expense of $(172) and $28 is included in selling, general, and administration expenses for the three months ended March 31, 2019 and three months ended March 31, 2018, respectively. Neo has removed both the share and value-based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

For the three months ended March 31, 2019, revenue in the Rare Metals segment was $21.5 million, compared to $22.8 million in the prior year period; a decrease of $1.2 million or 5.4%. Operating income in the Rare Metals segment was $0.2 million for the three months ended March 31, 2019, compared to $2.5 million in the same period in 2018; a decrease of $2.3 million or 93.7%.

For the first three months of 2019, Rare Metals was adversely affected by the continued impact of a rapid price decline in tantalum-based products that occurred in late 2018. The Rare Metals segment has considerable raw material on hand so when material prices change, there is a lead-lag impact into current period results as the operations is processing and selling material on hand purchased in a prior period. The segment saw stronger demand for hafnium-based products, as the business was successful in generating additional demand from both new and existing customers. The Rare Metals segment continues to develop new products and focus on value-added margins to mitigate short-term variations in its earnings due to material price volatility.

For the three months ended March 31, 2019, Adjusted OIBDA in the Rare Metals segment was $1.2 million, compared to $3.8 million in the same period in 2018; a decrease of $2.6 million or 69.0%.

7. Summary of Consolidated Quarterly Results

($000s, except for earnings per share information)	2019	2018				2017		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**$ 108,530**	**$ 109,361**	**$ 114,216**	**$ 110,433**	**$ 120,185**	**$ 109,452**	**$ 116,421**	**$ 101,634**
Net income (loss) attributable to equity holders of Neo	**12,247**	**4,285**	**8,669**	**19,174**	**8,667**	**(1,903)**	**9,051**	**9,294**
Basic EPS	0.31	0.11	0.22	0.48	0.22	(0.05)	0.23	0.23
Diluted EPS	0.31	0.11	0.21	0.47	0.21	(0.05)	0.22	0.23
Operating income	**16,239**	**6,224**	**10,890**	**12,269**	**13,505**	**4,716**	**11,423**	**7,806**
Add back:								
Depreciation and amortization included in costs of sales	2,410	2,352	2,404	2,475	2,510	2,491	2,678	3,150
Depreciation and amortization	1,985	1,716	1,658	1,722	1,882	1,587	2,435	1,711
OIBDA	**20,634**	**10,292**	**14,952**	**16,466**	**17,897**	**8,794**	**16,536**	**12,667**
Add back:								
Acquired inventory fair value release [(1)]	—	—	—	—	—	—	(531)	508
Share and value-based compensation [(2)]	(2,199)	782	1,780	1,392	1,391	802	860	1,623
Non-recurring transaction costs [(3)]	(1,949)	2,161	—	—	—	5,997	—	—
Adjusted OIBDA	**$ 16,486**	**$ 13,235**	**$ 16,732**	**$ 17,858**	**$ 19,288**	**$ 15,593**	**$ 16,865**	**$ 14,798**
Adjusted OIBDA margin	*15.2%*	*12.1%*	*14.6%*	*16.2%*	*16.0%*	*14.2%*	*14.5%*	*14.6%*

Notes:

(1) In accordance with IFRS 3 Business Combinations and on completion of the reorganization (please refer to the MD&A dated March 9, 2018), Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of $27,062, a portion of this inventory was sold in 2017. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with various periods.

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

(3) These represents legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions. Neo has removed these charges from OIBDA to provide comparability with historic periods.

8. Liquidity and Capital Resources

Three months ended March 31, 2019 compared to three months ended March 31, 2018:

	Three Months Ended March 31,	
($000s)	**2019**	**2018**
Cash flow:		
Cash (used in) provided by operating activities	$ 9,229	$ 1,377
Cash used in investing activities	(2,489)	(2,305)
Cash used in financing activities	(2,377)	(2,892)

Financial position - as at	**March 31, 2019**	**December 31, 2018**
Cash and cash equivalents	$ 76,136	$ 71,015
Property, plant and equipment	91,862	86,963
Total assets	560,151	543,023
Bank advances and other short-term debt	5,631	3,970

As at March 31, 2019, Neo had cash and cash equivalents of $76.1 million, compared to $71.0 million as at December 31, 2018. Neo paid $2.9 million in dividends to its shareholders and purchased $0.9 million of its shares under the Bid program in the three months ended March 31, 2019. In addition, Neo has approximately $7.9 million available under its credit facilities with $5.6 million drawn. Neo's financial position and ability to generate cash from its operations in the short and long-term remain sound.

The primary cash inflows and outflows contributing to the change from December 31, 2018 were the following:

Inflows
- $20.0 million cash from operations before net change in working capital; and
- $1.7 million in advances from short-term debts.

Outflows
- $2.9 million of dividends paid;
- $8.8 million net change in working capital;
- $2.7 million of capital spending;
- $0.9 million on the repurchase of Neo's common shares; and
- $1.9 million of income taxes paid.

Cash Provided by Operating Activities

Net cash provided by operating activities was $9.2 million during the three months ended March 31, 2019, compared to $1.4 million for the three months ended March 31, 2018. Higher operating performance, less cash tax paid as well as lower cash used to support working capital in the three months ended March 31, 2019, have all contributed to higher cash inflow from operating activities.

The $8.8 million net change in working capital for the three months ended March 31, 2019, was primarily attributable to the increases in accounts receivable resulting from the higher value spot sales in the quarter and increases in other current assets due to the inclusion of a $3.5 million receivable from Luxfer for the termination of the Luxfer Transaction. Net changes in accounts payable and accrued charges relate primarily to the disbursement of bonuses, professional fees related to the Luxfer Transaction and IP related legal costs. The increases in working capital were offset by the decrease in inventories.

Cash Used in Investing Activities

For the three months ended March 31, 2019, net cash used in investing activities was $2.5 million, which is comparable to the $2.3 million in the three months ended March 31, 2018. The major cash used in investing activities was for capital purchases, which were primarily related to capital projects performed at the Zibo, Tianjin and Silmet facilities. These capital projects included a combination of maintenance capital (to assist with the continuing development and operations of Neo), growth capital (to assist in adding new capacity or new products) and strategic capital (tied to longer-term strategic planning initiatives).

Cash Used in Financing Activities

Net cash used in financing activities during the three months ended March 31, 2019 was $2.4 million, compared to $2.9 million in the corresponding period in 2018. Neo distributed $2.9 million in dividends to its shareholders and spent $0.9 million on its repurchase of common shares. The cash used was netted with the $1.7 million bank advances in Germany. In the three months ended March 31, 2018, Neo distributed $3.0 million in dividends to its shareholders and had a bank advance of $0.4 million in Germany.

($000s)

Cash and cash equivalents by Country as at		**March 31, 2019**		**December 31, 2018**
China (including Hong Kong)	$	44,804	$	36,871
Estonia		7,249		9,999
United States		2,163		1,743
Canada		5,625		5,886
Japan		1,191		1,645
United Kingdom		3,917		2,761
Germany		708		1,202
Singapore		4,409		3,007
Barbados		96		3,976
Thailand		3,791		2,527
Cayman Islands		—		67
Other		2,183		1,331
Total cash and cash equivalents	**$**	**76,136**	**$**	**71,015**

Approximately $8.0 million of cash on hand held by Neo's foreign operating subsidiaries relate to earnings that are considered indefinitely reinvested in these foreign subsidiaries. Although substantially all of Neo's cash and cash equivalents can be repatriated, a portion may be subject to withholding taxes under current tax laws. While some of Neo's subsidiaries are subject to local governmental restrictions on the flow of capital into and out of their jurisdictions (including in the form of cash dividends, loans or advances), these restrictions have not had a material impact on Neo's ability to meet its cash obligations. Therefore, Neo does not consider this to be a significant risk on its ability to meet ongoing commitments and fund operations.

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

9. Contractual Obligations

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

	Payments Due by Period				
($000s)	1 year	2 - 3 years	4 - 5 years	Thereafter	Total
Accounts payable and other accrued charges	55,336	—	—	—	55,336
Derivative liability (1)	—	—	—	10,883	10,883
Provisions (2)	—	4,717	—	—	4,717
Lease obligations (3)	1,386	2,201	1,066	178	4,831
Other liabilities	146	2,554	—	—	2,700
Total	**$ 56,868**	**$ 9,472**	**$ 1,066**	**$ 11,061**	**$ 78,467**

Notes:

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

(2) Represents management's best estimate of the costs to be incurred by Neo for the disposal of the hazardous NORM currently being stored at the Silmet facility.

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

As at March 31, 2019, Neo had $76.1 million of cash and cash equivalents and approximately $1.6 million of restricted cash held as collateral against Letters of Credit. Neo believes that the remainder of its cash, in addition to cash from operating activities, is available (or sufficient) to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months. Neo considers cash to be "available" to the extent it can be utilized in operating activities, for capital expenditures, for intercompany loans or for repatriation. Neo also maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

10. Normal Course Issuer Bid

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

For the three months ended March 31, 2019, Neo repurchased and canceled 99,623 shares for a total consideration of $0.9 million. For the three months ended March 31, 2018, Neo repurchased and canceled 16,600 shares under a previously announced normal course issuer bid for a total consideration of $0.2 million.

11. Subsequent Event

On March 10, 2019, Luxfer and Neo mutually agreed to terminate the Luxfer Transaction. Luxfer agreed to pay all reasonable expenses incurred by Neo in connection with the termination of the arrangement agreement up to a maximum of $3.5 million, and Neo received the payment on April 5, 2019.

Between April 1 and May 9, 2019, Neo repurchased, for cancellation, 319,710 shares for a total consideration of $3.0 million.

2019 Quarterly Dividend

On May 9, 2019, the Board of Directors declared a quarterly dividend of Cdn $0.10 per common share payable in cash on June 28, 2019, to common shareholders of record at the close of business on June 20, 2019.

12. Off-Balance Sheet Arrangements

As of March 31, 2019, Neo's only off-balance sheet arrangements are purchase obligations.

13. 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. They are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. On adoption of IFRS 16, Neo has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options.

For a discussion about the significant estimates used in determining the carrying value of inventory, deferred tax assets, useful lives of depreciable assets, provisions, impairment of tangible and intangible assets, defined benefit pension liability, fair value of financial instruments, share-based compensation and expected credit losses, please refer to the MD&A dated March 10, 2019. Neo cautions readers that the actual results could differ materially from those estimates and assumptions.

14. Related Party Transactions and Balances

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

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

Transactions with associates

Neo holds a 33% investment in Toda Magnequench Magnetic Materials Co. Ltd. ("**TMT**"), which produces rare earth magnetic compounds with Magnequench Powders supplied by Magnequench's Tianjin facility in its normal course of business. Magnequench's Tianjin facility will then purchase these compounds back from TMT.

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 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.

For the three months ended March 31, 2019, Neo purchased $0.4 million worth of compounds from TMT, purchased metals and received services from Keli amounting to $9.9 million, and received services from GQD amounting to $0.2

million. For the three months ended March 31, 2019, Neo sold Magnequench Powders and performed services, amounting to $1.1 million to TMT.

For the three months ended March 31, 2018, Neo purchased $0.3 million worth of compounds from TMT, purchased metals and received services from Keli amounting to $19.2 million, and received services from GQD amounting to $0.3 million. For the three months ended March 31, 2018, Neo sold Magnequench Powders and performed services amounting to $0.7 million to TMT.

Transactions with joint venturers

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 months ended March 31, 2019, and for the three months ended March 31, 2018, these purchases were $0.7 million.

Neo also has occasionally purchased and sold products from and to Ganzhou Qian Dong Rare Earth Group Co. Ltd. ("**Qian Dong**") and Toda Kogyo Corp. ("**Toda**"). For the three months ended March 31, 2019, purchases from Qian Dong were $0.3 million. Sales to Toda for the three months ended March 31, 2019, were $0.1 million. There were no transactions with Qian Dong and Toda for the three months ended March 31, 2018.

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

($000s)	**Three Months Ended March 31,**	
	2019	**2018**
Sale of goods and services to related parties	$ 1,259	$ 965
Purchase of goods and services from related parties	10,764	20,562

($000s)	**March 31, 2019**	**December 31, 2018**
Trade balances:		
from related parties	$ 417	327
due to related parties	(2,861)	(5,102)
Total	**$ (2,444)**	**$ (4,775)**

Directors and Key Management Compensation

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

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

	Three Months Ended March 31,	
	2019	**2018**
Directors	71	$ 71
Key Executive Management	898	1,035
Total	$ 969	$ 1,106

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

	Three Months Ended March 31,			
	2019		2018	
Directors	$	(75)	$	76
Key Executive Management		(300)		905
Total	$	(375)	$	981

During the three months ended March 31, 2019, there has been a revision of the vesting period from the previous estimate for Share Options and RSUs pursuant to the termination of the Luxfer Transaction. Neo subsequently revised and adjusted the recognized share-based compensation expense cost on a cumulative basis. This resulted in a recovery of share-based compensation expense being recorded in the condensed consolidated statements of profit or loss.

15. Financial Instruments and Risk Management

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

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

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

($000s)	Level 1		Level 2		Level 3	
Financial Liabilities:						
Put option issued to non-controlling interest of Buss & Buss.	$	—	$	—	$	10,883

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, 2019.

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

Commodity price risk

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

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

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

Foreign currency risk

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

Credit risk

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

Under IFRS 9 - Financial Instruments ("**IFRS 9**"), Neo establishes a loss allowance using the expected credit losses ("**ECL**") impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at March 31, 2019, Neo recorded a loss allowance of $0.1 million. The estimated credit losses, if any, is included in selling, general and administrative expenses in the consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose Neo to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at March 31, 2019, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

Liquidity risk

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

As at March 31, 2019, Neo is able to meet its financial obligations as they fall due.

16. Changes in Accounting Policies

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

16.1 IFRS 16 - Leases

16.1.1 Adjustments recognized on adoption of IFRS 16

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

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

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

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

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

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

Adjusted EBITDA, segment assets and liabilities for the period ended March 31, 2019 all increased as a result of the change in accounting policy. Earnings per share decreased by $0.001 per share for the three months ended March 31, 2019 as a result of the adoption of IFRS 16.

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

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

16.1.2 Revised accounting policy

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

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- Neo has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- Neo has the right to direct the use of the asset. Neo has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, Neo has the right to direct the use of the asset if either:
  - Neo has the right to operate the asset; or
  - Neo designed the asset in a way that predetermines how and for what purpose it will be used.

Neo recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

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

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

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

16.2 IFRIC 23 - Uncertainty over income tax treatments

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

17. Recent Accounting Pronouncements

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

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

Disclosure controls and procedures

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

Internal controls over financial reporting

Neo's internal controls over financial reporting ("**ICFR**") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Neo's management is responsible for establishing and maintaining adequate ICFR for Neo. National Instrument 52-109 of the Canadian Securities Administrators requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for Neo and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to Neo's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. There have been no material changes during the quarter ended March 31, 2019. Neo's management under the supervision of the CEO and CFO has evaluated the design and operating effectiveness of Neo's ICFR based on the Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As at March 31, 2019, management assessed that Neo's ICFR were effective.

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

19. Business Risks and Uncertainties

Neo's risk factors are substantially unchanged from and should be read in conjunction with Neo's MD&A dated March 10, 2019 and Neo's 2018 Annual Information Form ("**AIF**").

20. Outstanding Shares Data

Class of Equity Security	Numbers Outstanding
Common Shares	39,550,717
Stock Options*	1,158,712
Restricted Share Units & Performance Stock Units	1,105,378

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

The number of common shares outstanding as at May 10, 2019 is 39,231,007.

21. Additional Information

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