



Performance Materials

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2021

Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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 and related notes thereto for the year ended December 31, 2020, dated March 19, 2021, 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 Earnings per Share", "EBITDA", "Free Cash Flow", and "Free Cash Flow Conversion" are not measures recognized under IFRS and do not have any standardized meaning prescribed by IFRS. These measures may differ from those used by other companies, 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 19, 2021 under "*Risk Factors*". See "*Forward-Looking Information*".

The discussion and analysis in this MD&A are based upon information available to management as of August 11, 2021. 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; risk factors relating to national or international economies (including the impact of COVID-19), and other risks present in the jurisdictions in which Neo, its customers, its suppliers, and/or its logistics partners operate, 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, August 11, 2021, 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 manufactures the building blocks of many modern technologies that enhance efficiency and sustainability. Neo's advanced industrial materials, magnetic powders and magnets, specialty chemicals, metals, and alloys are critical to the performance of many everyday products and emerging technologies. Neo's products help to deliver the technologies of tomorrow to consumers today.

Neo has approximately 1,830 employees and has a global platform that includes 10 manufacturing facilities located in China, the United States ("U.S."), Germany, Canada, Estonia, Thailand and South Korea, as well as two dedicated research and development ("R&D") centres in Singapore and the United Kingdom ("UK"). Since 1994, Neo has leveraged its processing expertise to innovate and grow into a leading manufacturer of advanced industrial materials for specialty end markets. Neo has established itself as a leading commercial partner to some of the world's largest customers in the automotive, semiconductor, advanced electronic and specialty chemical industries. As a result, Neo is well positioned in markets that are forecast to see robust, long-term growth driven by multiple global macro trends, such as vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and superalloys. Neo identifies growth markets driven by global macro trends such as these, and produces highly engineered industrial materials that are critical to the performance of applications in those markets.

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

Magnequench

The Magnequench segment, with more than 30 years of manufacturing experience, is the world leader in the production of 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 micro motors for household applications like vacuum cleaners, refrigerators, hair dryers, air conditioners and residential heating and cooling circulation pumps, industrial and other sensors, motors used in various automotive applications for hybrid, electric, and internal combustion engine vehicles, and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

C&O

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

Rare Metals

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

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

Corporate

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

3. Selected Financial Highlights

(\$000s, except volume)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	2019	2021	2020	2019
Revenue						
Magnequench	\$ 67,888	\$ 30,267	\$ 41,473	\$ 132,793	\$ 68,793	\$ 89,028
C&O	52,255	25,320	38,534	106,645	58,858	82,107
Rare Metals	20,083	13,529	25,027	36,799	33,979	46,558
Corporate / Eliminations	(5,085)	(1,382)	(3,298)	(10,241)	(3,199)	(7,427)
Consolidated Revenue	\$ 135,141	\$ 67,734	\$ 101,736	\$ 265,996	\$ 158,431	\$ 210,266
Operating Income (Loss)						
Magnequench	\$ 12,585	\$ 3,421	\$ 6,164	\$ 23,675	\$ 8,960	\$ 15,645
C&O	7,920	(37,748)	3,696	20,042	(34,774)	10,322
Rare Metals	1,836	(24,728)	(371)	2,094	(24,905)	(214)
Corporate / Eliminations	(4,146)	(5,938)	(3,639)	(11,208)	(9,267)	(3,664)
Consolidated Operating Income (Loss)	\$ 18,195	\$ (64,993)	\$ 5,850	\$ 34,603	\$ (59,986)	\$ 22,089
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")⁽¹⁾						
Magnequench	\$ 14,937	\$ 5,565	\$ 8,255	\$ 28,369	\$ 13,280	\$ 19,184
C&O	8,735	(1,462)	4,924	21,653	2,951	11,912
Rare Metals	2,462	376	1,813	3,365	1,287	2,988
Corporate / Eliminations	(3,957)	(3,288)	(2,988)	(8,774)	(6,682)	(5,594)
Consolidated Adjusted EBITDA	\$ 22,177	\$ 1,191	\$ 12,004	\$ 44,613	\$ 10,836	\$ 28,490
Volume (in mt)						
Magnequench	1,509	1,024	1,367	3,234	2,295	2,812
C&O	2,443	1,466	2,053	4,866	3,401	4,188
Rare Metals	161	90	154	279	232	272
Corporate / Eliminations	(50)	(35)	(84)	(110)	(80)	(175)
Consolidated Volumes	4,063	2,545	3,490	8,269	5,848	7,097
Net Income (Loss)	\$ 13,027	\$ (63,364)	\$ 2,293	\$ 20,644	\$ (62,846)	\$ 14,520
Attributable to:						
Equity holders of Neo	12,960	(60,936)	2,090	20,406	(60,573)	14,337
Non-controlling interest	67	(2,428)	203	238	(2,273)	183
Earnings (Loss) per share attributable to equity holders of Neo						
Basic	\$ 0.34	\$ (1.62)	\$ 0.05	\$ 0.54	\$ (1.61)	\$ 0.36
Diluted	\$ 0.34	\$ (1.62)	\$ 0.05	\$ 0.54	\$ (1.61)	\$ 0.36
Adjusted Net Income (Loss)⁽²⁾	\$ 14,092	\$ (5,578)	\$ 5,234	\$ 29,186	\$ (4,709)	\$ 13,374
Attributable to:						
Equity holders of Neo	14,025	(5,417)	5,031	28,948	(4,703)	13,191
Non-controlling interest	67	(161)	203	238	(6)	183
Adjusted Earnings (Loss) per Share attributable to equity holders of Neo ⁽²⁾ :						
Basic	\$ 0.37	\$ (0.14)	\$ 0.13	\$ 0.77	\$ (0.12)	\$ 0.33
Diluted	\$ 0.37	\$ (0.14)	\$ 0.13	\$ 0.76	\$ (0.12)	\$ 0.33
Capital expenditures excluding business combination						
	\$ 2,521	\$ 1,527	\$ 1,973	\$ 4,257	\$ 3,029	\$ 4,638
Cash taxes paid						
	\$ 2,536	\$ 2,960	\$ 4,258	\$ 3,788	\$ 5,558	\$ 6,159
Dividends paid to shareholders						
	\$ 3,126	\$ 2,695	\$ 2,891	\$ 6,211	\$ 5,531	\$ 5,741
Repurchase of common shares under Normal Course Issuer Bid						
	\$ —	\$ 309	\$ 6,559	\$ 37	\$ 1,259	\$ 7,493
				June 30,	December 31,	
				2021	2020	2019
Cash and cash equivalents	\$ 59,596	\$ 72,224	\$ 84,735			
Debt	\$ 4,415	\$ 2,428	\$ 54			

Notes:

(1) See "Non-IFRS Financial Measures" and details of computation of Adjusted EBITDA.

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

Highlights for the three and six months ended June 30, 2021

Consolidated Results

- For the three and six months ended June 30, 2021, revenues were 99.5% and 67.9% higher, respectively, than the corresponding periods of 2020. All three segments experienced an increase in revenues as volumes rose due to the economic recovery since the initial impact of COVID-19 in 2020. Aside from this lower comparable period, all three segments demonstrated strong growth in volumes and profitability compared to recent (non-COVID-19) historical periods. Volume levels in the six month period ended June 30, 2021 were supported by progress in key strategic initiatives in all three segments with the first three months of 2021 also supported by customer's refilling the supply chain. Selling prices for rare earth products (including Magnequench powders) rose significantly starting from the fourth quarter of 2020 through the first quarter of 2021 before declining throughout the second quarter of 2021. Despite the decline in rare earth prices in the second quarter of 2021, prices remain relatively high compared to more recent historical periods. Neo has benefited from these generally higher prices from both a lead-lag perspective (lower cost inventory on hand) and more dollar value margin available generally with higher prices.
- Neo reported operating income of \$18.2 million and net income of \$13.0 million for the three months ended June 30, 2021; and operating income of \$34.6 million and net income of \$20.6 million for the six months ended June 30, 2021. Operating income in the three and six months ended June 30, 2021 was higher in all three segments.
- Operationally, all segments reported significant increases in volume, revenue and earnings. Magnequench saw broad volume increases across the majority of its applications including key end markets such as solutions for electrified vehicles (including traction motors) and in other applications such as factory automation and home appliances. C&O saw continued strong demand particularly for its magnetic based rare earth elements, growth in environmental catalysts exceeding market growth rates and record sales volumes in its environmentally protective water treatment solutions. The Rare Metals segment saw some recovery in the aerospace end market and made key progress to extended its sales into additional, non-aerospace markets.
- Adjusted EBITDA for the three and six months ended June 30, 2021 was \$22.2 million and \$44.6 million, respectively, an increase of \$21.0 million and \$33.8 million compared to the same periods of the prior year. Similar to operating income, in the three and six months ended June 30, 2021, Adjusted EBITDA in all three segments increased over the same periods in the prior year.
- Neo continues to see longer-term growth in demand for many of its key products driven by several global macro trends, including increased electrification of automobiles, which increases the need for Neo's functional materials on a per-vehicle basis; greater demand for precision and efficient motors across multiple sectors, which encourages higher utilization of Neo's magnetic materials; growth in hybrid and electric vehicles; more stringent government regulation 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 advanced industrial materials are integral to technologies in all these end markets.

Magnequench Segment

- Operating income for the three and six months ended June 30, 2021 was \$12.6 million and \$23.7 million, respectively, an increase of \$9.2 million and \$14.7 million when compared to the three and six months ended June 30, 2020.
- For the three months ended June 30, 2021, Adjusted EBITDA in the Magnequench segment was \$14.9 million, compared to \$5.6 million in the three months ended June 30, 2020; an increase of \$9.4 million. For the six months ended June 30, 2021, Adjusted EBITDA in the Magnequench segment was \$28.4 million, compared to \$13.3 million in same period of 2020; an increase of \$15.1 million.

- For the three and six months ended June 30, 2021, volumes in the Magnequench segment saw a continued rebound and strong growth compared to prior periods. The three month period ended June 2020 was significantly impacted by slowdowns and shutdowns in the economy in general primarily due to impacts from COVID-19. Aside from the COVID-19 impact in the comparable prior period, a portion of the volume growth in the first six months of 2021 can be attributed to customers rebuilding inventory levels (primarily seen in the first three months of 2021) and a portion is attributed to new growth in new platforms. Over the last few years, Magnequench has focused on key macro growth trends that are yielding positive sales volume growth in areas such as compression magnets and electrified-automotive applications, including traction motors and pumps. The six months ended June 30, 2021 also saw strong growth in factory automation and home appliance applications demonstrating growth across the majority of the Magnequench applications. Despite these strengths, volumes were slowed in the latter portion of the second quarter of 2021 and could potentially continue into the third quarter of 2021 due to the semi-conductor chip shortage impacting automotive and non-automotive applications. Magnequench margins benefited from increased volumes and better absorption of fixed costs as well as the lead-lag impact of prices rising in rare earth components of its powder composition. Although Magnequench has strategically structured most of its sales contracts to contain pass-through pricing provisions for rare earth raw materials, in the three and six months ended June 30, 2021, Magnequench significantly benefited from the timing of implementation of these price increases with having some lower cost inventory on hand.

Chemicals & Oxides ("C&O") Segment

- For the three and six months ended June 30, 2021, the C&O segment reported operating income of \$7.9 million and \$20.0 million, respectively, compared to an operating loss of \$37.7 million and \$34.8 million in the same periods of the prior year. The operating loss in the three and six months ended June 30, 2020 was mainly due to the \$35.1 million impairment charge (see *Consolidated Results of Operations - Impairment of assets*).
- For the three months ended June 30, 2021, Adjusted EBITDA was \$8.7 million, compared to \$(1.5) million in the same period in the prior year. For the six months ended June 30, 2021, Adjusted EBITDA was \$21.7 million, compared to \$3.0 million in the same period in the prior year; an increase of \$18.7 million or 633.8%.
- The C&O segment continues to see strong demand for various rare earth products, particularly magnetic-based products, as the global economy continues its recovery from the economic impacts of COVID-19. After the rare earth products saw a sharp increase in selling prices in the first quarter of 2021 (which started in the fourth quarter of 2020), rare earth prices slowly declined throughout the second quarter, although they remain higher than recent historical periods. The combination of higher prices and higher demand for magnetic rare earth products drove much stronger financial performance for the C&O segment compared to the prior periods, particularly as the segment was continuing to process the lower cost inventory that it had on hand. In addition to this lead-lag impact of lower cost inventory on hand relative to selling prices, generally higher rare earth prices have supported higher dollar value margins in the rare earth separation business. In environmental catalysts, C&O also saw a strong rebound in demand for many programs and continued growth in some of its newer products, exceeding the market growth in the automotive sector, generally. Customer re-stocking inventory levels largely affected the first three months of 2021 with more underlying market share growth supporting the majority of the strong second quarter sales volumes. C&O has started to see customer demand being impacted by the semi-conductor chip shortage late in the second quarter and potentially impacting the third quarter. These combined higher volumes in the first six months of 2021 also had a positive impact on fixed cost absorption levels which further contributed to higher margins in the quarter. C&O's environmentally protective water treatment solutions business also saw strong growth in both the three and six month periods ended June 30, 2021 with record sales volumes achieved in the second quarter of 2021 with new customer adoption and relatively high retention rates.

Rare Metals Segment

- For the three and six months ended June 30, 2021, the Rare Metals segment reported an operating income of \$1.8 million and \$2.1 million, respectively, compared to an operating loss of \$24.7 million and \$24.9 million in the same periods of 2020. The operating loss in the three and six months ended June 30, 2020 was mainly due to the \$24.0 million impairment charge (see *Consolidated Results of Operations - Impairment of assets*).
- For the three months ended June 30, 2021, Adjusted EBITDA in the Rare Metals segment was \$2.5 million, compared to \$0.4 million in the same period in 2020; an increase of \$2.1 million or 554.8%. For the six months ended June 30, 2021, Adjusted EBITDA was \$3.4 million, compared to \$1.3 million in 2020; an increase of \$2.1 million or 161.5%.
- Similar to Magnequench and C&O, the prior year comparable period for the Rare Metals segment was also impacted by COVID-19 although more so in the three months period ended June 30, 2020 (and continuing later into 2020). For the three and six month periods ended June 30, 2021, the end markets of Rare Metals have exhibited some slower recovery levels. The improvement in the Rare Metals business in the three and six month periods ended June 30, 2021 (primarily in the second quarter) is also attributed to progress made in several key strategic initiatives in the segment. The Rare Metals segment has made key progress into selling more products outside of the aerospace industry, thereby participating in new growth initiatives while diversifying its total end market exposure. Key progress continues to be made in expanding the capacity of key products (with minimal capital investment) and refocusing the sales pipeline and manufacturing capacity toward more profitable end products. Sales prices in the tantalum and rhenium end markets have recovered and gallium based products are exhibiting more market demand.

Cash and Other Highlights for the six months ended June 30, 2021

- Neo continues to have a strong financial position. As at June 30, 2021, Neo had \$59.6 million in cash, \$4.2 million in restricted cash and \$4.4 million in short-term debt, resulting in net cash of \$59.3 million.
- Neo invested \$4.3 million in capital expenditures and paid \$3.8 million in cash taxes in the six months ended June 30, 2021.
- For the six months ended June 30, 2021, Neo paid dividends to its shareholders of \$6.2 million. As part of the Normal Course Issuer Bid program, Neo repurchased and canceled 3,400 shares for a nominal amount.

4. Impact of COVID-19 Pandemic

Commencing in January 2020, the outbreak of COVID-19 has spread across the globe and is impacting worldwide economic activity. Conditions surrounding COVID-19 continue to evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The COVID-19 outbreak and related public health measures have adversely affected economic activity in most industries across the globe and have increased market volatility. COVID-19 has had and continues to have a significant impact on Neo's customers, suppliers, employees, performance and operations as outlined below.

Neo operates in numerous regions of the world, each of which has been impacted by COVID-19 to differing degrees and for differing time frames. Neo's customers (the largest of which are in automotive, aerospace and general industrial) generally operate through complex global supply chains and maintain various target inventory levels with varying periods for purchase commitments. Throughout 2020, Neo's sales were negatively impacted by customers shutting down operations, cancelling orders, delaying orders and changes to customer purchasing patterns due to customers' managing inventory levels. The overall impact to automotive, aerospace and industrial activities varies region to region and period to period but generally reflect a significant negative trend in economic activity and sales. Although it is not practical to specifically quantify, Neo believes that the COVID-19 pandemic was the largest contributing factor to the decline in sales and financial performance in 2020.

Neo's operating activities were also impacted by various COVID-19 shutdown requirements and the ensuing impact on raw materials and other supplies needed for production. Neo's manufacturing operations in China were shutdown for an additional one to two weeks following the Lunar New Year shutdown in February 2020. Following the re-opening of the factories, manufacturing operations were slowed due to lack of demand, availability of raw materials and supplies and other human resource restrictions. By the end of March 2020, the operations in China were largely capable of running at normal capacity, notwithstanding the reduced demand at the time, which necessitated slowing down the rare earth separation plants in the second quarter of 2020. In Estonia, Neo slowed down or altered its operations from June 2020 through November 2020 due to a lack of primary raw materials. The reduced availability of raw materials was due to suppliers shutting down operations due to COVID-19 restrictions in their regions. In the first quarter of 2021, numerous employees at the Estonia facility tested positive for COVID-19. The relatively high cases in Estonia were associated with general community and family transmission and not tied to working conditions. The government in Estonia increased vaccinations efforts in Silmet including providing vaccinations on-site at Silmet. During this period, the Estonia facility managed through higher employee absences which slowed some production levels. In North America, Neo slowed or shut down manufacturing facilities due to government requirements through much of the second quarter of 2020. In early November 2020, four employees at the Quapaw, Oklahoma facility tested positive for COVID-19. As the Quapaw facility has a total of eight employees, the production activities at the Quapaw facility were suspended for approximately 10 days. The Quapaw facility resumed normal production on November 16, 2020. For non-manufacturing locations, Neo implemented a work-from-home policy or rotating shift policy to comply with various government regulations around the world. Despite the changes to the operating patterns noted above, Neo was able to meet shipment commitments to customers.

Each Neo facility established policies and procedures to minimize the risk that its employees become exposed to COVID-19 in the course of their employment. In addition, each Neo facility has implemented necessary protocols in order to comply with applicable legal requirements related to COVID-19. Employees have been given formal training on Neo's COVID-19 policies and procedures. Employees who can work from home are strongly encouraged to do so. Neo performs temperature screening and health checks upon entry to all facilities. Those who have recently travelled, who have COVID related symptoms, or who are known to have been exposed to the COVID-19 virus are not permitted to enter Neo facilities for an appropriate quarantine period. Employees and visitors who enter Neo facilities are required to maintain two meters of physical separation and wear masks or respirators, as appropriate. Neo also implemented enhanced protocols for plant and office hygiene including an assessment and changes to work protocols, where appropriate. Neo reduced travel for the executive, sales and technical teams. Whilst requiring significant efforts to implement, Neo does not believe that these changes had a material impact on operating performance.

Neo applied for various forms of government support in various regions of the world related to generally announced and available COVID-19 support funding. A total of \$2.3 million of potential benefits were recorded in 2020, mainly in China, Singapore and Canada. In addition, Neo engaged in numerous cost containment strategies over the period reflecting reduced customer demand including temporary shutdowns and slowdowns to manufacturing facilities, reduced discretionary expenditures such as travel and entertainment, delayed human resource recruitment, delays in certain capital expenditures, delays in certain project and development related expenditures and reductions in working capital to support lower demand.

The resulting impact to operating and financial performance from COVID-19 affected Neo's overall liquidity position. As at June 30, 2021, Neo had cash balances of \$59.6 million and restricted cash of \$4.2 million with \$4.4 million in short-term debt. With the recovery in economic activity noted in early 2021, Neo has seen increased demand in most of its end markets and Neo has been investing more in working capital in the first half of 2021. Neo has not experienced a significant decline in the collectability of its accounts receivable although it continues to monitor potential bad debts and maintains an expected credit loss amount, in accordance with IFRS 9. As at June 30, 2021, Neo does not have any material debt obligations or restrictive covenants that could potentially materially impact Neo's ability to continue to finance its existing operations. Neo's planned capital investment program was slowed during 2020 due to various impacts of COVID-19 during the period but Neo continues to make appropriate capital investments to support its existing business and for future growth with \$7.3 million invested in capital equipment for the year ended December 31, 2020 and \$4.1 million in the first half of 2021. As at June 30, 2021, Neo has continued to consistently pay dividends to its shareholders.

The impact of COVID-19 on economic activity and Neo's results were most pronounced in the second and third quarters of 2020. Starting late in the third quarter and continuing into the first half of 2021, Neo experienced a rebound in customer activity in certain end markets and segments, resulting in an increase in sales, including customers potentially refilling portions of their supply chain. As of the second quarter of 2021, Neo believes that sales and operating activities have largely returned to pre-COVID conditions although many of the changes in the operating environments will continue to adhere to higher hygiene and social distancing requirements. Certain travel among sales, technical and management teams have resumed but remain significantly limited. Early in the third quarter, positive cases of COVID are beginning to rise again, primarily attributed to the Delta variant. Certain OEM manufacturers have announced shutdowns and slowdowns of certain factories, particularly in certain regions of the world. Neo will continue to assess the global situation and its impact on its workforce, sales outlooks and operating conditions going forward, including certain remote working conditions. It is uncertain, given the state of additional variants and the introduction of numerous vaccines, how COVID-19 will impact global economic activity and Neo's results going forward.

Neo may, in the future, seek to raise additional capital or debt and this activity may be affected by the impacts of COVID-19 but it is not possible to determine the potential impact of this at this time. It remains uncertain how long the COVID-19 virus will continue to affect Neo and economic activity in general.

5. Consolidated Results of Operations

Comparison of the three and six months ended June 30, 2021 to the three and six months ended June 30, 2020

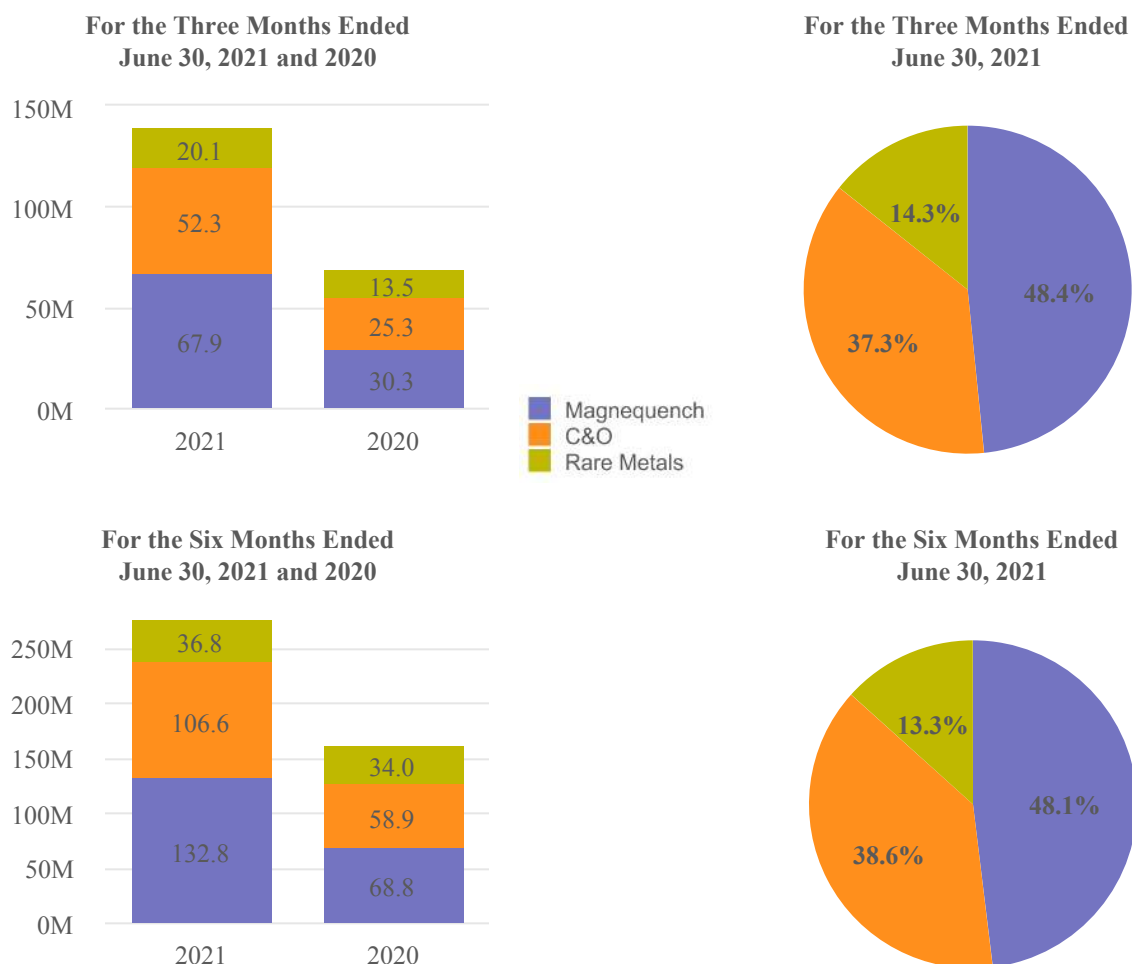
(\$000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue	135,141	67,734	265,996	158,431
Costs of sales				
Costs excluding depreciation and amortization	94,580	51,180	185,500	117,429
Depreciation and amortization	1,912	2,715	3,791	5,435
Gross profit	38,649	13,839	76,705	35,567
Expenses				
Selling, general and administrative	13,617	14,690	27,677	26,651
Share-based compensation	(29)	170	1,563	(57)
Depreciation and amortization	1,935	2,018	3,890	4,054
Research and development	4,931	2,870	8,972	5,821
Impairment of assets	—	59,084	—	59,084
	20,454	78,832	42,102	95,553
Operating income (loss)	18,195	(64,993)	34,603	(59,986)
Other income (expense)	213	221	(5,861)	27
Finance cost, net	(1,457)	(2,318)	(1,673)	(3,263)
Foreign exchange (loss) gain	(788)	138	(1,089)	(312)
Income (loss) from operations before income taxes and equity income of associates	16,163	(66,952)	25,980	(63,534)
Income tax (expense) benefit	(3,479)	3,229	(6,612)	387
Income (loss) from operations before equity income of associates	12,684	(63,723)	19,368	(63,147)
Equity income of associates (net of income tax)	343	359	1,276	301
Net income (loss)	\$ 13,027	\$ (63,364)	\$ 20,644	\$ (62,846)
Attributable to:				
Equity holders of Neo	12,960	\$ (60,936)	20,406	\$ (60,573)
Non-controlling interest	67	(2,428)	238	(2,273)
	\$ 13,027	\$ (63,364)	\$ 20,644	\$ (62,846)
Earnings (Loss) per share attributable to equity holders of Neo:				
Basic	\$ 0.34	\$ (1.62)	\$ 0.54	\$ (1.61)
Diluted	\$ 0.34	\$ (1.62)	\$ 0.54	\$ (1.61)

Revenue

Neo's consolidated revenue for the three months ended June 30, 2021 was \$135.1 million compared to \$67.7 million for the same period in the prior year; an increase of \$67.4 million or 99.5%. For the six months ended June 30, 2021, consolidated revenue was \$266.0 million compared to \$158.4 million for the six months ended June 30, 2020; an increase of \$107.6 million or 67.9%.

(\$000s)	Three Months Ended June 30,				Six Months Ended June 30,			
	2021	2020	Change	%	2021	2020	Change	%
Magnequench	\$ 67,888	\$ 30,267	\$ 37,621	124.3%	\$ 132,793	\$ 68,793	\$ 64,000	93.0%
C&O	52,255	25,320	26,935	106.4%	106,645	58,858	47,787	81.2%
Rare Metals	20,083	13,529	6,554	48.4%	36,799	33,979	2,820	8.3%
Eliminations	(5,085)	(1,382)	(3,703)	267.9%	(10,241)	(3,199)	(7,042)	220.1%
Consolidated Revenue	\$ 135,141	\$ 67,734	\$ 67,407	99.5%	\$ 265,996	\$ 158,431	\$ 107,565	67.9%

Revenue by segment before inter-segment eliminations ⁽¹⁾



Notes:

(1) The revenue by segment before inter-segment eliminations charts, excludes inter-segment revenue eliminations.

Inter-segment revenue for the three and six months ended June 30, 2021 was \$5.1 million and \$10.2 million, respectively, compared to \$1.4 million and \$3.2 million in the three and six months ended June 30, 2020. These have been eliminated on consolidation from 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, for the three months ended June 30, 2021 was \$94.6 million or 70.0% of revenue, compared to \$51.2 million or 75.6% of revenue in the three months ended June 30, 2020. For the six months ended June 30, 2021, consolidated costs of sales, excluding depreciation and amortization was \$185.5 million or 69.7% of revenue, compared to \$117.4 million or 74.1% of revenue in the same period of the prior year. Costs of sales, excluding depreciation and amortization, as a percentage of revenue decreased mainly due to increased rare earth commodity prices, lower inventory costs relative to current selling price, additional volume benefiting the absorption of fixed costs and product mix within the business segments.

Consolidated depreciation and amortization in costs of sales were \$1.9 million and \$3.8 million for the three and six months ended June 30, 2021, respectively, compared to \$2.7 million and \$5.4 million in the three and six months ended June 30, 2020, respectively. Consolidated depreciation and amortization in costs of sales in the three and six months ended June 30, 2021 decreased due to the lower carrying value of property, plant and equipment and finite-lived intangible assets as a result of impairments recorded in the second quarter of 2020.

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 freight, legal, accounting and other professional fees, and information technology costs. For the three and six months ended June 30, 2021, SG&A expense was \$13.6 million and \$27.7 million, respectively, compared to \$14.7 million and \$26.7 million in the previous year.

Neo's SG&A expense has increased in 2021 primarily due to transaction costs related to the secondary offering, and an increase in expenses related to continuing legal costs associated with intellectual property disputes. (see "*Other Expenditures and Legal Contingencies*"). In the three months ended June 30, 2020, Neo's SG&A expense included the costs associated with the departure of a former member of Neo's executive management team, offset by certain government assistance related to COVID-19.

Share-based compensation

For the three and six months ended June 30, 2021, share-based compensation was nominal and \$1.6 million, respectively, compared to \$0.2 million expense and \$0.1 million recovery for the corresponding three and six months ended June 30, 2020. The higher expense in 2021 is mainly due to marking the cash settled awards to market using the higher share price for Neo's common shares and recognizing the service period expense for awards granted in 2020.

Depreciation and amortization

Depreciation and amortization unrelated to production for the three and six months ended June 30, 2021 was \$1.9 million and \$3.9 million, respectively, comparable to \$2.0 million and \$4.1 million in the three and six months ended June 30, 2020.

R&D

For the three and six months ended June 30, 2021, R&D expense was \$4.9 million and \$9.0 million, respectively, compared to \$2.9 million and \$5.8 million in the corresponding periods in 2020. Neo continues to prioritize making strategic and appropriate investments in R&D to develop new applications for its products and to strategically position itself to meet customers' needs for technical solutions. Certain R&D costs are project-based and may be higher or lower in any given period.

Impairment of assets

The negative economic impacts of COVID-19 were determined to be an impairment indicator as of June 30, 2020 for all Neo's Cash Generating Units ("CGUs"). In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of \$59.1 million for the three and six months ended June 30, 2020, with \$35.1 million attributable to the C&O segment and \$24.0 million attributable to the Rare Metals segment. No impairment was recorded against the Magnequench segment. The impairment charge against the C&O and Rare Metals segments was allocated as follows:

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

Other income (expense)

Neo reported consolidated other income of \$0.2 million for the three months ended June 30, 2021 and 2020. For the six months ended June 30, 2021, other expense of \$5.9 million was reported, compared to a nominal amount for the six months ended June 30, 2020. In the six months ended June 30, 2021, Neo recorded other expense for estimated damage claims related to legal proceedings, partially offset by other income from the disposal of Neo's entire holdings of Shanxi Jiahua Galaxy Electronic Materials Co., Ltd. and insurance proceeds received related to damage incurred at the Blanding facility (now sold).

Finance cost, net

Finance cost, net, for the three and six months ended June 30, 2021 was \$1.5 million and \$1.7 million, respectively, compared to \$2.3 million and \$3.3 million in the same periods of 2020. Neo's finance cost, net in both years were primarily related to the 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 cost, net. For the three and six months ended June 30, 2020, Neo also recorded a dividend of \$1.1 million and \$3.3 million, respectively, paid to its non-controlling interest subject to the put option as a finance cost in accordance with IAS 32.

As at June 30, 2021, Neo had no outstanding bank loans and \$4.4 million was drawn from the line of credit. As at June 30, 2020, no amounts were drawn from the line of credit.

Income tax expense

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. For the three and six months ended June 30, 2020, Neo had an income tax benefit of \$3.2 million and \$0.4 million, respectively, on loss from operations before taxes of \$67.0 million and \$63.5 million.

Neo's effective income tax rate was 21.5% and 25.5% for the three and six months ended June 30, 2021, respectively, and 4.8% and 0.6% for the three and six months ended June 30, 2020.

The lower effective tax rates for the three and six months ended June 30, 2020 is due primarily to the impairment of assets for accounting purposes. During the three months ended June 30, 2020, Neo recognized an impairment of goodwill of \$33.0 million, which is not deductible for tax purposes. In addition, Neo recognized a \$8.5 million impairment of intangible assets and property, plant and equipment in a jurisdiction for which there is no tax benefit. The above two items increased the loss from operations without any corresponding tax benefit, resulting in a reduction to the effective tax rates.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of \$2.5 million and \$4.3 million for the three and six months ended June 30, 2021, compared to \$1.5 million and \$3.0 million for the three and six months ended June 30, 2020. 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 United Kingdom, the People's Republic of China and Estonia. Additionally, Neo has initiated proceedings to invalidate certain patents of Neo's competitors issued in these same jurisdictions.

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

Of the various lawsuits initiated and underway, the German Courts have ruled that certain of Neo Chemicals & Oxides (Europe) Ltd.'s ("**Neo C&O (Europe)**") products infringed four expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1 ("**846**"), European patent #0605274 ("**274**"), and European patent #0955267 B1 ("**267**"). Neo C&O (Europe) filed an appeal in each of the four infringement actions. The appeal with respect to 846 is still pending. Neo C&O (Europe) has either lost or withdrawn its appeals with respect to 984, 274 and 267, and consequently the judgements 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**"). Neo's lawsuits to invalidate 018 and 682 are still pending.

Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed four unexpired patents: 018, 682, European Patent #1435338 B1 ("**338**") and European patent #2523907 ("**907**"). In September 2020, Neo C&O (Europe) was found to infringe 018 in Germany by the Düsseldorf Regional Court. Neo and Rhodia have both appealed this ruling, and the appeals are still pending. The Düsseldorf Regional Court has stayed Rhodia's case alleging infringement of 682, pending the outcome of Neo's action before the German Federal Patent Court to invalidate 682. The 907 action was initiated at the beginning of July 2020, 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) has appealed the decision. In January 2019, the Federal Patent Court in Munich revoked the German designation of patent 338. Rhodia appealed this ruling, and on April 6, 2021, the German Federal Supreme Court reversed the judgment of the Federal Patent Court and upheld the validity of EP 338, subject to certain limitations in its scope. Neo's appeal of the judgment of infringement is set for hearing before the Higher Regional Court of Karlsruhe in December 2021.

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

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

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

In January 2019, the PRB ruled in favor of ZAMR by invalidating all patent claims associated with patent ZL 97195463.1. On February 28, 2019, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit

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

On March 4, 2019, the PRB ruled in favor of ZAMR by invalidating all patent claims associated with patent ZL 02822106.0, which is equivalent to European Patent 338. Solvay Japan 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. This ruling is subject to Solvay Japan's right of appeal to the Supreme People's Court of China.

In October 2020, Rhodia Operations refiled a lawsuit, in the Ji'nan Intermediate Court, alleging ZAMR had infringed Chinese patent ZL 96196505.3. In 2015 Rhodia Operations had filed a similar lawsuit against ZAMR alleging infringement of the same patent before the Zibo Intermediate People's Court, but in December 2019 Rhodia Operations withdrew that lawsuit during the middle of trial. The Ji'nan Intermediate Court held a hearing on July 8, 2021, but has not yet issued a ruling in this case.

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
Chinese patent ZL 03817110.4	China	\$3.1 million
Chinese patent ZL 200710146613.6	China	\$2.3 million
European patent 0863846 B1	Germany	} \$8.7 million
European patent 0735984 B1	Germany	
European patent 0605274 B1	Germany	
Chinese patent ZL 96196505.3	China	\$7.0 million
European Patent EP 3009403	Estonia	\$0.1 million
European & UK patents 1435338 B1	UK	Not specified
European & UK patents 1435338 B1	Germany	Not specified
European patent 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified
European patent 2523907	Germany	Not specified

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

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

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

6. 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", "EBITDA", "Adjusted Earnings per Share", "Free Cash Flow", and "Free Cash Flow Conversion" 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 (gain) loss, share and value-based compensation, impairment of long-lived assets, and other costs (recoveries);

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

"Adjusted Net Income" is defined as net income or loss before foreign exchange (gain) loss, share and value-based compensation, impairment of assets, other costs (recoveries), and other items included in other expense (income), net of the related tax effects;

"EBITDA" is defined as net income (loss) before finance costs (income), 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 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

Management believes that the use of these non-IFRS financial measures 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.

In the past, Neo used references to Adjusted EBITDA and Adjusted OIBDA, defined as operating income before depreciation and amortization, share and value-based compensation, impairment of assets, and other costs (recoveries), interchangeably as the adjustments in each measure provides the same calculated outcome of operating performance. For the three and six months ended June 30, 2021, management has only presented Adjusted EBITDA to simplify the disclosure.

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

(\$000s, except volume)	Three Months Ended June 30,				Six Months Ended June 30,			
	2021	2020	Change	%	2021	2020	Change	%
Net income (loss)	\$13,027	\$(63,364)	\$ 76,391	(121%)	\$20,644	\$(62,846)	\$ 83,490	(133%)
Add back (deduct):								
Finance cost, net	1,457	2,318	(861)		1,673	3,263	(1,590)	
Income tax expense (benefit)	3,479	(3,229)	6,708		6,612	(387)	6,999	
Depreciation and amortization included in costs of sales	1,912	2,715	(803)		3,791	5,435	(1,644)	
Depreciation and amortization included in operating expenses	1,935	2,018	(83)		3,890	4,054	(164)	
EBITDA	21,810	(59,542)	81,352	(137%)	36,610	(50,481)	87,091	(173%)
Adjustments to EBITDA:								
Other (income) expense ⁽¹⁾	(213)	(221)	8		5,861	(27)	5,888	
Foreign exchange loss (gain) ⁽²⁾	788	(138)	926		1,089	312	777	
Equity income of associates	(343)	(359)	16		(1,276)	(301)	(975)	
Share and value-based compensation ⁽³⁾	(29)	(153)	124		1,563	(271)	1,834	
Impairment of assets ⁽⁴⁾	—	59,084	(59,084)		—	59,084	(59,084)	
Other costs ⁽⁵⁾	164	2,520	(2,356)		766	2,520	(1,754)	
Adjusted EBITDA	\$22,177	\$1,191	\$ 20,986	1,762%	\$44,613	\$10,836	\$ 33,777	312%
<i>Adjusted EBITDA Margins</i>	<i>16.4%</i>	<i>1.8%</i>			<i>16.8%</i>	<i>6.8%</i>		
Less:								
Capital expenditures	\$2,521	\$1,527	994	65.1%	4,257	3,029	1,228	40.5%
Free Cash Flow	\$19,656	\$ (336)	\$ 19,992	(5,950%)	\$40,356	\$7,807	\$ 32,549	417%
<i>Free Cash Flow Conversion</i> ⁽⁶⁾	<i>88.6%</i>	<i>(28.2%)</i>			<i>90.5%</i>	<i>72.0%</i>		
Revenue	135,141	67,734	67,407	99.5%	265,996	158,431	107,565	67.9%
Sales volume (tonnes)	4,063	2,545	1,518	59.6%	8,269	5,848	2,421	41.4%

Notes:

- (1) Represents other expenses resulting from non-operational related activities, including provisions for estimated damages for outstanding legal claims related to historic volumes. 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 is included in selling, general, and administration expenses. For the three and six months ended June 30, 2021, value-based compensation expense was nil, as the financial statement impact of the liquidity event was recorded in the year ended December 31, 2020. For the three and six months ended June 30, 2020, value-based compensation recovery was \$(320) and \$(213), 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) The negative economic impacts of COVID-19 were determined to be an impairment indicator as of June 30, 2020 for all Neo's CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's CGUs was determined based on fair value less cost of

disposal for the Magnequench segment and value in use for the C&O and the Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of \$59.1 million for the six months ended June 30, 2020, with \$35.1 million attributable to the C&O segment and \$24.0 million attributable to the Rare Metals segment. No impairment was recorded against the Magnequench segment.

- (5) These represent 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.
- (6) Calculated as Free Cash Flow divided by Adjusted EBITDA.

Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss):

(\$000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income (loss)	\$ 13,027	\$ (63,364)	\$ 20,644	\$ (62,846)
Adjustments to net income (loss):				
Foreign exchange loss (gain) ⁽¹⁾	788	(138)	1,089	312
Impairment of assets ⁽²⁾	—	59,084	—	59,084
Share and value-based compensation ⁽³⁾	(29)	(153)	1,563	(271)
Other costs ⁽⁴⁾	164	2,520	766	2,520
Other items included in other expense ⁽⁵⁾	243	(120)	6,422	—
Tax impact of the above items	(101)	(3,407)	(1,298)	(3,508)
Adjusted net income (loss)	\$ 14,092	\$ (5,578)	\$ 29,186	\$ (4,709)
Attributable to:				
Equity holders of Neo	\$ 14,025	\$ (5,417)	\$ 28,948	\$ (4,703)
Non-controlling interest	\$ 67	\$ (161)	\$ 238	\$ (6)
Weighted average number of common shares outstanding:				
Basic	37,815,403	37,665,686	37,649,443	37,702,492
Diluted	38,195,144	37,665,686	38,009,185	37,702,492
Adjusted earnings (loss) per share attributable to equity holders of Neo:				
Basic	\$ 0.37	\$ (0.14)	\$ 0.77	\$ (0.12)
Diluted	\$ 0.37	\$ (0.14)	\$ 0.76	\$ (0.12)

Notes:

- (1) Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (2) The negative economic impacts of COVID-19 were determined to be an impairment indicator as of June 30, 2020 for all Neo's CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and the Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of \$59.1 million for the six months ended June 30, 2020, with \$35.1 million attributable to the C&O segment and \$24.0 million attributable to the Rare Metals segment. No impairment was recorded against the Magnequench segment.
- (3) Represents 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 is included in selling, general, and administration expenses. For the three and six months ended June 30, 2021, value-based compensation expense was nil, as the financial statement impact of the liquidity event was recorded in the year ended December 31, 2020. For the three and six months ended June 30, 2020, value-based compensation recovery was \$(320) and \$(213), 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.

- (4) These represent 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.
- (5) Represents other expenses resulting from non-operational related activities, including provisions for estimated damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.

7. 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).

7.1 Magnequench

(\$000s, except volume)	Three Months Ended June 30,		Change	%	Six Months Ended June 30,		Change	%
	2021	2020			2021	2020		
Operating income	\$12,585	\$3,421	\$ 9,164	268%	\$23,675	\$ 8,960	\$ 14,715	164%
Net income	\$10,351	\$3,198	\$ 7,153	224%	\$19,589	\$ 6,850	\$ 12,739	186%
Add back (deduct):								
Finance (income) cost, net	(55)	25	(80)		(102)	68	(170)	
Income tax expense	2,870	697	2,173		5,320	2,436	2,884	
Depreciation and amortization included in costs of sales	833	783	50		1,632	1,571	61	
Depreciation and amortization included in operating expenses	1,503	1,413	90		3,028	2,838	190	
EBITDA	15,502	6,116	9,386	153%	29,467	13,763	15,704	114%
Other income ⁽¹⁾	(201)	(92)	(109)		(220)	(87)	(133)	
Foreign exchange (gain) loss ⁽²⁾	(34)	(48)	14		367	(6)	373	
Equity income of associates	(343)	(359)	16		(1,276)	(301)	(975)	
Share and value-based compensation ⁽³⁾	13	(52)	65		31	(89)	120	
Adjusted EBITDA	\$14,937	\$5,565	\$ 9,372	168%	\$28,369	\$13,280	\$ 15,089	114%
<i>Adjusted EBITDA Margins</i>	22.0%	18.4%			21.4%	19.3%		
Revenue	\$67,888	\$30,267	\$ 37,621	124%	\$132,793	\$68,793	\$ 64,000	93.0%
Sales volume (tonnes)	1,509	1,024	485	47.4%	3,234	2,295	939	40.9%

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 gains and losses 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 is included in selling, general, and administration expenses. For the three and six months ended June 30, 2021, value-based compensation expense was nil, as the financial statement impact of the liquidity event was recorded in the year ended December 31, 2020. For the three and six months ended June 30, 2020, value-based compensation recovery was \$(108) and \$(72), 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.

For the three months ended June 30, 2021, revenue in the Magnequench segment was \$67.9 million, compared to \$30.3 million in the three months ended June 30, 2020; an increase of \$37.6 million or 124.3%. For the six months ended June 30, 2021, revenue in the Magnequench segment was \$132.8 million, compared to \$68.8 million in the six months ended June 30, 2020; an increase of \$64.0 million or 93.0%. Volume increased to 1,509 tonnes compared to 1,024 tonnes in the three months ended June 30, 2020. For the six months ended June 30, 2021, volume increased to 3,234 tonnes, compared to 2,295 tonnes in the same period in 2020; an increase of 40.9%. Generally, the differing rates of change for revenue and volumes are primarily attributed to changes in commodity input material prices and, to a lesser extent, product mix. Magnequench has material pricing pass-through agreements with the vast majority of its customers, which enables Magnequench to pass through changes in material input costs into selling price on a lagged basis.

Operating income for the three and six months ended June 30, 2021 was \$12.6 million and \$23.7 million, respectively, an increase of \$9.2 million and \$14.7 million when compared to the three and six months ended June 30, 2020.

For the three and six months ended June 30, 2021, volumes in the Magnequench segment saw a continued rebound and strong growth compared to prior periods. The three month period ended June 2020 was significantly impacted by slowdowns and shutdowns in the economy in general primarily due to impacts from COVID-19. Aside from the COVID-19 impact in the comparable prior period, a portion of the volume growth in the first six months of 2021 can be attributed to customers rebuilding inventory levels (primarily seen in the first three months of 2021) and a portion is attributed to new growth in new platforms. Over the last few years, Magnequench has focused on key macro growth trends that are yielding positive sales volume growth in areas such as compression magnets and electrified-automotive applications, including traction motors and pumps. The six months ended June 30, 2021 also saw strong growth in factory automation and home appliance applications demonstrating growth across the majority of the Magnequench applications. Despite these strengths, volumes were slowed in the latter portion of the second quarter of 2021 and could potentially continue into the third quarter of 2021 due to the semi-conductor chip shortage impacting automotive and non-automotive applications. Magnequench margins benefited from increased volumes and better absorption of fixed costs as well as the lead-lag impact of prices rising in rare earth components of its powder composition. Although Magnequench has strategically structured most of its sales contracts to contain pass-through pricing provisions for rare earth raw materials, in the three and six months ended June 30, 2021, Magnequench significantly benefited from the timing of implementation of these price increases with having some lower cost inventory on hand.

For the three months ended June 30, 2021, Adjusted EBITDA in the Magnequench segment was \$14.9 million, compared to \$5.6 million in the three months ended June 30, 2020; an increase of \$9.4 million. For the six months ended June 30, 2021, Adjusted EBITDA in the Magnequench segment was \$28.4 million, compared to \$13.3 million in same period of 2020; an increase of \$15.1 million.

7.2 Chemicals & Oxides

<i>(\$000s, except volume)</i>	Three Months Ended June 30,				Six Months Ended June 30,			
	2021	2020	Change	%	2021	2020	Change	%
Operating income (loss)	\$7,920	\$(37,748)	\$ 45,668	(121%)	\$20,042	\$(34,774)	\$ 54,816	(158%)
Net income (loss)	\$7,284	\$(33,473)	\$ 40,757	(122%)	\$12,154	\$(31,812)	\$ 43,966	(138%)
Add back (deduct):								
Finance income, net	(24)	(62)	38		(16)	(113)	97	
Income tax expense (benefit)	32	(3,835)	3,867		248	(3,156)	3,404	
Depreciation and amortization included in costs of sales	521	966	(445)		1,031	1,963	(932)	
Depreciation and amortization included in operating expenses	292	384	(92)		575	771	(196)	
EBITDA	8,105	(36,020)	44,125	(123%)	13,992	(32,347)	46,339	(143%)
Other expense (income) ⁽¹⁾	39	(171)	210		7,120	(113)	7,233	
Foreign exchange loss (gain) ⁽²⁾	589	(207)	796		535	420	115	
Share and value-based compensation ⁽³⁾	2	(128)	130		6	(73)	79	
Impairment of assets ⁽⁴⁾	—	35,064	(35,064)		—	35,064	(35,064)	
Adjusted EBITDA	\$8,735	\$(1,462)	\$ 10,197	(697%)	\$21,653	\$2,951	\$ 18,702	634%
<i>Adjusted EBITDA Margins</i>	16.7%	(5.8%)			20.3%	5.0%		
Revenue	\$52,255	\$25,320	\$ 26,935	106%	\$106,645	\$58,858	\$ 47,787	81.2%
Sales volume (tonnes)	2,443	1,466	977	66.6%	4,866	3,401	1,465	43.1%

Notes:

- (1) Represents other expenses resulting from non-operational related activities, including provisions for estimated damages for outstanding legal claims related to historic volumes. 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 is included in selling, general, and administration expenses. For the three and six months ended June 30, 2021, value-based compensation expense was nil, as the financial statement impact of the liquidity event was recorded in the year ended December 31, 2020. For the three and six months ended June 30, 2020, value-based compensation expense was \$(136) and \$(90), 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) The negative economic impacts of COVID-19 were determined to be an impairment indicator as of June 30, 2020 for all Neo's CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of \$59.1 million for the three and six months ended June 30, 2020, with \$35.1 million attributable to the C&O segment.

For the three months ended June 30, 2021, revenue in the C&O segment was \$52.3 million, compared to \$25.3 million in the same period in 2020; an increase of \$26.9 million or 106.4%. For the six months ended June 30, 2021, revenue in the C&O segment was \$106.6 million, compared to \$58.9 million in the same period in 2020; an increase of \$47.8 million or 81.2%.

For the three and six months ended June 30, 2021, the C&O segment reported operating income of \$7.9 million and \$20.0 million, respectively, compared to an operating loss of \$37.7 million and \$34.8 million in the same periods of the prior year. The operating loss in the three and six months ended June 30, 2020 was mainly due to the \$35.1 million impairment charge.

The C&O segment continues to see strong demand for various rare earth products, particularly magnetic-based products, as the global economy continues its recovery from the economic impacts of COVID-19. After the rare earth products saw a sharp increase in selling prices in the first quarter of 2021 (which started in the fourth quarter of 2020), rare earth prices slowly declined throughout the second quarter, although they remain higher than recent historical periods. The combination of higher prices and higher demand for magnetic rare earth products drove much stronger financial performance for the C&O segment compared to the prior periods, particularly as the segment was continuing to process the lower cost inventory that it had on hand. In addition to this lead-lag impact of lower cost inventory on hand relative to selling prices, generally higher rare earth prices have supported higher dollar value margins in the rare earth separation business. In environmental catalysts, C&O also saw a strong rebound in demand for many programs and continued growth in some of its newer products, exceeding the market growth in the automotive sector, generally. Customer re-stocking inventory levels largely affected the first three months of 2021 with more underlying market share growth supporting the majority of the strong second quarter sales volumes. C&O has started to see customer demand being impacted by the semi-conductor chip shortage late in the second quarter and potentially impacting the third quarter. These combined higher volumes in the first six months of 2021 also had a positive impact on fixed cost absorption levels which further contributed to higher margins in the quarter. C&O's environmentally protective water treatment solutions business also saw strong growth in both the three and six month periods ended June 30, 2021 with record sales volumes achieved in the second quarter of 2021 with new customer adoption and relatively high retention rates.

C&O recorded an impairment charge of \$35.1 million for the three month ended June 30, 2020. The impairment charge, triggered, in part by the economic impacts of COVID-19, relates to reduced future cash flows and changes in discount rates causing the recoverable amount to be less than the carrying values of the segment in the financial statements. This non-cash impairment charge largely relates to non-productive assets whose value was adjusted as a result of purchase price accounting applied in September 2016, upon the emergence from bankruptcy of the predecessor company.

For the three months ended June 30, 2021, Adjusted EBITDA was \$8.7 million, compared to \$(1.5) million in the same period in the prior year. For the six months ended June 30, 2021, Adjusted EBITDA was \$21.7 million, compared to \$3.0 million in the same period in the prior year; an increase of \$18.7 million or 633.8%.

7.3 Rare Metals

(\$000s, except volume)	Three Months Ended June 30,				Six Months Ended June 30,			
	2021	2020	Change	%	2021	2020	Change	%
Operating income (loss)	\$ 1,836	\$ (24,728)	\$ 26,564	(107%)	\$ 2,094	\$ (24,905)	\$ 26,999	(108%)
Net (loss) income	\$ (557)	\$ (27,098)	\$ 26,541	(98%)	\$ 182	\$ (28,686)	\$ 28,868	(101%)
Add back (deduct):								
Finance cost, net	1,499	2,374	(875)		1,830	3,368	(1,538)	
Income tax expense (benefit) ..	564	(104)	668		1,015	314	701	
Depreciation and amortization included in costs of sales	558	966	(408)		1,128	1,901	(773)	
Depreciation and amortization included in operating expenses	63	137	(74)		126	277	(151)	
EBITDA	2,127	(23,725)	25,852	(109%)	4,281	(22,826)	27,107	(119%)
Other (income) expense ⁽¹⁾	(51)	(17)	(34)		(1,039)	70	(1,109)	
Foreign exchange loss ⁽²⁾	380	117	263		106	29	77	
Share and value-based compensation ⁽³⁾	6	(19)	25		17	(6)	23	
Impairment of assets ⁽⁴⁾	—	24,020	(24,020)		—	24,020	(24,020)	
Adjusted EBITDA	\$ 2,462	\$ 376	\$ 2,086	555%	\$ 3,365	\$ 1,287	\$ 2,078	161%
<i>Adjusted EBITDA Margins</i>	12.3%	2.8%			9.1%	3.8%		
Revenue	\$20,083	\$13,529	\$ 6,554	48.4%	\$36,799	\$33,979	\$ 2,820	8.3%
Sales volume (tonnes)	161	90	71	78.9%	279	232	47	20.3%

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 is included in selling, general, and administration expenses. For the three and six months ended June 30, 2021, value-based compensation expense was nil, as the financial statement impact of the liquidity event was recorded in the year ended December 31, 2020. For the three and six months ended June 30, 2020, value-based compensation recovery was \$(23) and \$(16), 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) The negative economic impacts of COVID-19 were determined to be an impairment indicator as of June 30, 2020 for all Neo's CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of \$59.1 million for the three and six months ended June 30, 2020, with \$24.0 million attributable to the Rare Metals segment.

For the three months ended June 30, 2021, revenue in the Rare Metals segment was \$20.1 million, compared to \$13.5 million in the same period in the prior year; an increase of \$6.6 million or 48.4%. For the six months ended June 30, 2021, revenue in the Rare Metals segment was \$36.8 million, compared to \$34.0 million in the same period in the prior year; an increase of \$2.8 million or 8.3%.

For the three and six months ended June 30, 2021, the Rare Metals segment reported an operating income of \$1.8 million and \$2.1 million, respectively, compared to an operating loss of \$24.7 million and \$24.9 million in the same periods of 2020. The operating loss in the three and six months ended June 30, 2020 was mainly due to the \$24.0 million impairment charge.

Similar to Magnequench and C&O, the prior year comparable period for the Rare Metals segment was also impacted by COVID-19 although more so in the three months period ended June 30, 2020 (and continuing later into 2020). For the three and six month periods ended June 30, 2021, the end markets of Rare Metals have exhibited some slower recovery levels. The improvement in the Rare Metals business in the three and six month periods ended June 30, 2021 (primarily in the second quarter) is also attributed to progress made in several key strategic initiatives in the segment. The Rare Metals segment has made key progress into now selling more products outside of the aerospace industry, thereby participating in new growth initiatives while diversifying its total end market exposure. Key progress continues to be made in expanding the capacity of key products (with minimal capital investment) and refocusing the sales pipeline and manufacturing capacity toward more profitable end products. Sales prices in the tantalum and rhenium end markets have recovered and gallium based products are exhibiting more market demand.

Rare Metals recorded an impairment charge of \$24.0 million for the three month ended June 30, 2020. The impairment charge, triggered, in part by the economic impacts of COVID-19, relates to reduced future cash flows and changes in discount rates causing the recoverable amount to be less than the carrying values of the segment in the financial statements. This non-cash impairment charge largely relates to non-productive assets whose value was adjusted as a result of purchase price accounting applied in September 2016, upon the emergence from bankruptcy of the predecessor company.

For the three months ended June 30, 2021, Adjusted EBITDA in the Rare Metals segment was \$2.5 million, compared to \$0.4 million in the same period in 2020; an increase of \$2.1 million or 554.8%. For the six months ended June 30, 2021, Adjusted EBITDA was \$3.4 million, compared to \$1.3 million in 2020; an increase of \$2.1 million or 161.5%.

8. Summary of Consolidated Quarterly Results

(\$000s, except for earnings per share information)	2021		2020				2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	\$135,141	\$130,855	\$110,397	\$77,864	\$67,734	\$90,697	\$94,553	\$102,645
Net income (loss) attributable to equity holders of Neo	12,960	7,466	2,219	423	(60,936)	363	4,639	3,944
Basic EPS	0.34	0.20	0.06	0.01	(1.62)	0.01	0.12	0.10
Diluted EPS	0.34	0.20	0.06	0.01	(1.62)	0.01	0.12	0.10
Operating income (loss)	18,195	16,408	3,190	1,137	(64,993)	5,007	7,014	8,399
Net income (loss)	13,027	7,617	2,356	401	(63,364)	518	4,483	4,072
Add back (deduct):								
Finance cost (income), net . . .	1,457	216	(2,484)	99	2,318	945	266	353
Income tax expense (benefit) . .	3,479	3,133	832	1,198	(3,229)	2,842	1,278	3,612
Depreciation and amortization included in Costs of Sales	1,912	1,879	1,999	1,996	2,715	2,720	2,656	2,546
Depreciation and amortization included in operating expenses	1,935	1,955	1,899	1,797	2,018	2,036	2,062	1,971
EBITDA	21,810	14,800	4,602	5,491	(59,542)	9,061	10,745	12,554
Add back:								
Other (income) expense ⁽¹⁾	(213)	6,074	2,253	92	(221)	194	1,027	(129)
Foreign exchange loss (gain) ⁽²⁾	788	301	211	128	(138)	450	(50)	662
Equity (income) loss of associates	(343)	(933)	22	(781)	(359)	58	10	(171)
Share and value-based compensation ⁽³⁾	(29)	1,592	3,584	931	(153)	(118)	443	153
Impairment of assets ⁽⁴⁾	—	—	—	—	59,084	—	—	—
Other costs (recoveries) ⁽⁵⁾	164	602	1,636	(131)	2,520	—	305	(283)
Adjusted EBITDA	\$22,177	\$22,436	\$12,308	\$ 5,730	\$ 1,191	\$ 9,645	\$12,480	\$12,786
Adjusted EBITDA Margins	16.4%	17.1%	11.1%	7.4%	1.8%	10.6%	13.2%	12.5%

Notes:

- (1) Represents other expenses resulting from non-operational related activities, including provisions for estimated damages for outstanding legal claims related to historic volumes. 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. 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) The negative economic impacts of COVID-19 were determined to be an impairment indicator during the second quarter of 2020 for all of Neo's groups of CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's groups of CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of \$59.1 million in the second quarter of 2020, with \$35.1 million attributable to the C&O segment and \$24.0 million attributable to the Rare Metals segment. No impairment was recorded against the Magnequench segment.

- (5) These represent primarily legal, professional advisory fees and other transaction costs incurred/(recovered) with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.

9. Liquidity and Capital Resources

Six months ended June 30, 2021 compared to six months ended June 30, 2020:

(\$000s)	Six Months Ended June 30,	
	2021	2020
<i>Cash flow:</i>		
Cash (used in) provided by operating activities	\$ (1,216)	\$ 8,441
Cash used in investing activities	(4,612)	(2,777)
Cash used in financing activities	(6,513)	(11,372)
<i>Financial position - as at</i>		
	June 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 59,596	\$ 72,224
Restricted cash	4,167	4,219
Property, plant and equipment	74,035	74,322
Total assets	498,951	486,542
Bank advances and other short-term debt	4,415	2,428

As of June 30, 2021, Neo had cash and cash equivalents of \$59.6 million plus restricted cash of \$4.2 million, compared to \$72.2 million plus \$4.2 million as at December 31, 2020. In the six months ended June 30, 2021, Neo paid \$6.2 million in dividends to its shareholders, remitted \$3.0 million related to withholding taxes on stock-based awards and received \$1.5 million from stock options exercised. In addition, Neo has approximately \$6.5 million available under its credit facilities with \$4.4 million drawn as at June 30, 2021, compared to \$2.4 million drawn as at December 31, 2020. 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, 2020 were the following:

Inflows

- \$44.5 million from operations before net change in working capital, income taxes paid and net interest received;
- \$2.0 million of bank advances;

Outflows

- \$6.2 million of dividends paid to shareholders;
- \$1.5 million related to withholding taxes paid, net of amounts received for issuing common shares on stock-based awards;
- \$4.3 million of other capital spending;
- \$3.8 million of income taxes paid; and
- \$42.0 million net change in working capital.

Cash Used in Operating Activities

Net cash used in operating activities was \$1.2 million during the six months ended June 30, 2021, compared to net cash provided by operating activities of \$8.4 million for the six months ended June 30, 2020. Higher cash used in operating activities was primarily due to an increase in net working capital.

The \$42.0 million net change in working capital for the six months ended June 30, 2021, was primarily attributable to the increase in accounts receivable from higher sales in the previous quarter, higher inventory costs (driven by higher rare earth costs), and a decrease in accounts payable and other accrued charges.

Cash Used in Investing Activities

For the six months ended June 30, 2021, net cash used in investing activities was \$4.6 million, compared to \$2.8 million in the six months ended June 30, 2020. The cash used in investing activities was 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 six months ended June 30, 2021 was \$6.5 million, compared to \$11.4 million in 2020. In the six months ended June 30, 2021, Neo drew \$2.0 million of bank advances in Germany, received \$1.5 million from stock options exercised, distributed \$6.2 million in dividends to its shareholders, spent \$3.0 million related to withholding taxes on stock-based awards, and spent \$0.8 million in lease payments. In the six months ended June 30, 2020, Neo distributed \$5.5 million in dividends to its shareholders and \$3.5 million to non-controlling interest partners, spent \$1.3 million on the repurchase of common shares, spent \$1.0 million in lease payments and repaid \$0.1 million to the revolving line of credit in Germany.

(\$000s)

<i>Cash and cash equivalents by Country as at</i>	June 30, 2021	December 31, 2020
China (including Hong Kong)	\$ 29,852	\$ 34,512
Estonia	6,987	1,847
United States	3,370	8,428
Canada	4,024	2,968
Japan	2,317	3,013
United Kingdom	2,939	6,875
Germany	1,475	3,815
Singapore	5,458	5,570
Barbados	291	309
Thailand	1,935	3,827
Cayman Islands	128	32
Other	820	1,028
Total cash and cash equivalents	\$ 59,596	\$ 72,224

Approximately \$8.5 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 (including costs related to the relocation of Zibo production facility) and third-party debt service requirements.

10. 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.

(\$000s)	Payments Due by Period				
	1 year	2 - 3 years	4 - 5 years	Thereafter	Total
Bank advances and other short-term debts	\$ 4,415	\$ —	\$ —	\$ —	4,415
Accounts payable and other accrued charges	59,950	—	—	—	59,950
Derivative liability ⁽¹⁾	11,138	—	—	—	11,138
Provisions ⁽²⁾	2,450	15,551	—	—	18,001
Lease obligations ⁽³⁾	1,475	1,992	282	42	3,791
Other liabilities	390	1,288	105	166	1,949
Total	\$ 79,818	\$ 18,831	\$ 387	\$ 208	\$ 99,244

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 and JAMR facility and an estimated damages provision related to legal proceedings (see "Other Expenditures and Legal Contingencies").
- (3) Represents the present value of Neo's lease obligations for office space, land and office equipment.

As at June 30, 2021, Neo had \$59.6 million of cash and cash equivalents and approximately \$4.2 million of restricted cash. The restricted cash is held as collateral against Letters of Credit and the Silmet NORM provision. 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.

11. 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 will terminate on June 3, 2022. A previously announced normal course issuer bid expired on May 18, 2021.

There were no shares repurchased in 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. For the three and six months ended June 30, 2020, Neo repurchased and canceled 49,700 and 175,900 shares under a previously announced normal course issuer bid for a total consideration of \$0.3 million and \$1.3 million, respectively.

12. Subsequent Events

Dividends payable to equity holders of Neo

On August 11, 2021, the Board of Directors declared a quarterly dividend of Cdn. \$0.10 per common share payable in cash on September 29, 2021, to common shareholders of record at the close of business on September 20, 2021.

13. Off-Balance Sheet Arrangements

As of June 30, 2021, Neo's only off-balance sheet arrangements are purchase obligations.

14. 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.

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 19, 2021. Neo cautions readers that the actual results could differ materially from those estimates and assumptions.

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

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

15. Related Party Transactions and Balances

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.

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, 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 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.

For the three and six months ended June 30, 2020, Neo purchased \$0.2 million and \$0.6 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$6.2 million and \$14.7 million, and received services from GQD amounting to \$0.4 million and \$1.1 million, respectively.

For the three and six months ended June 30, 2020, Neo sold Magnequench Powders and performed services, respectively, amounting to \$0.9 million and \$1.6 million to TMT. For the three and six months ended June 30, 2020, Neo sold oxides to Keli amounting to \$0.2 million.

Transactions with joint venture partners

Neo, through its sales company in Japan, Neo Japan Inc., has occasionally purchased Gallium from Beijing Jiya Semiconductor Material Co., Ltd. ("**Beijing Jiya**") for resale to third party customers. No purchases were made in both the three and six months ended June 30, 2021 and 2020.

Neo also has occasionally purchased and sold products from and to Ganzhou Qian Dong Rare Earth Group Co. Ltd. ("**Qian Dong**") and Toda Kogyo Corp. ("**Toda**"). For the three and six months ended June 30, 2021, purchases from Qian Dong were \$0.7 million and \$1.1 million, respectively. For the three and six months ended June 30, 2021, sales to Toda were \$0.3 million, and \$0.5 million, respectively.

For the three and six months ended June 30, 2020, there were no purchases from Qian Dong. Sales to Toda for the three and six months ended June 30, 2020 were \$0.1 million and \$0.2 million, respectively.

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, 2021, sales to Atatsu were \$0.1 million and \$0.2 million, respectively. For the three and six months ended June 30, 2020, sales to Atatsu were \$0.1 million.

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

(\$000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2021	2020
Sale of goods and services to related parties	\$ 5,223	\$ 1,240	\$ 8,520	\$ 2,130
Purchase of goods and services from related parties	22,021	6,807	47,055	16,448
			June 30, 2021	December 31, 2020
Trade balances:				
from related parties			\$ 698	\$ 501
due to related parties			(11,598)	(17,338)
Total			\$ (10,900)	\$ (16,837)

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:

(\$000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Directors	\$ 87	\$ 99	\$ 173	\$ 196
Key Executive Management	1,079	3,050	2,038	3,954
Total	\$ 1,166	\$ 3,149	\$ 2,211	\$ 4,150

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

(\$000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Directors	\$ (279)	\$ 126	\$ 271	\$ (139)
Key Executive Management	226	39	1,136	73
Total	\$ (53)	\$ 165	\$ 1,407	\$ (66)

For the three and six months ended June 30, 2020, Neo recognized an expense of \$2.1 million associated with the departure of a former member of Neo's executive management team.

16. 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 June 30, 2021, are grouped into the fair value hierarchy as follows:

<i>(\$000s)</i>	Level 1	Level 2	Level 3
Financial Assets:			
Equity securities	\$ 776	\$ —	\$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	\$ —	\$ —	\$ 11,138

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, 2021.

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 advanced industrial materials 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 revenues 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), 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, Neo calculates a loss allowance using the expected credit loss impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at June 30, 2021, the loss allowance was approximately \$0.2 million. The estimated credit losses are included in selling, general and administrative expenses in the consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose Neo to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at June 30, 2021, 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.

17. Recent Accounting Pronouncements

Neo adopted the following accounting standards and amendments to accounting standards during the period ended June 30, 2021:

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

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

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

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

17.2 Covid-19-Related Rent Concessions (Amendment to IFRS 16)

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

The new 2021 amendments were effective for annual periods beginning on or after April 1, 2021, with early adoption permitted. The amendment was adopted by Neo on April 1, 2021. The amendment did not have a material impact on the interim condensed consolidated financial statements.

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

17.3 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.

17.4 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.

17.5 Onerous Contracts - Costs of Fulfilling a Contract (Amendments to IAS 37)

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

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

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

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

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

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

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

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

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") as at June 30, 2021 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 June 30, 2021. 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 June 30, 2021, 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 19, 2021 and Neo's 2020 Annual Information Form ("**AIF**").

20. Outstanding Shares Data

Class of Equity Security	Numbers Outstanding as at June 30, 2021
Common Shares	37,868,942
Stock Options*	1,018,539
Restricted Share Units & Performance Stock Units	—

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

The number of common shares outstanding as at August 11, 2021 is 37,868,942.

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.