MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2022

Management's Discussion and Analysis

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

The following Management's Discussion and Analysis ("**MD&A**") for Neo Performance Materials Inc. ("**Neo**") should be read in conjunction with the MD&A and audited consolidated financial statements and related notes thereto for the year ended December 31, 2021, dated March 9, 2022, and the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2022, 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 9, 2022 under "*Risk Factors*". See "*Forward-Looking Information*".

The discussion and analysis in this MD&A are based upon information available to management as of May 12, 2022. 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, May 12, 2022, 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, rare earth 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 1,860 employees and has a global platform that includes 10 manufacturing facilities located in China, the United States ("**U.S.**"), Germany, Canada, Estonia, Thailand and South Korea, as well as one dedicated research and development ("**R&D**") centre in Singapore. Since 1994, Neo has leveraged its processing expertise to innovate and grow into a leading manufacturer of advanced industrial materials for specialty end markets. Neo has established itself as a leading commercial partner to some of the world’s largest customers in the automotive, manufacturing, semiconductor, advanced electronic, and specialty chemical industries. As a result, Neo is well positioned in markets that are forecast to see robust, long-term growth driven by multiple global macro trends, such as vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and superalloys. Neo identifies growth markets driven by global macro trends such as these, and produces highly engineered industrial materials that are critical to the performance of applications in those markets.

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

Magnequench

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

C&O

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

Rare Metals

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

Corporate

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

3. Selected Financial Highlights

($000s, except volume)	Three Months Ended March 31,		
	2022	2021	2020
Revenue			
Magnequench	$ 74,015	$ 64,905	$ 38,526
C&O	67,662	54,390	33,538
Rare Metals	29,062	16,716	20,450
Corporate / Eliminations	(4,457)	(5,156)	(1,817)
Consolidated Revenue	**$ 166,282**	**$ 130,855**	**$ 90,697**
Operating Income (Loss)			
Magnequench	$ 10,236	$ 11,090	$ 5,539
C&O	18,477	12,122	2,974
Rare Metals	3,723	258	(177)
Corporate / Eliminations	(3,751)	(7,062)	(3,329)
Consolidated Operating Income	**$ 28,685**	**$ 16,408**	**$ 5,007**
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") (1)			
Magnequench	$ 12,778	$ 13,432	$ 7,715
C&O	19,910	12,918	4,413
Rare Metals	4,341	903	911
Corporate / Eliminations	(3,911)	(4,817)	(3,394)
Consolidated Adjusted EBITDA	**$ 33,118**	**$ 22,436**	**$ 9,645**
Volume (in mt)			
Magnequench	1,305	1,725	1,271
C&O	2,099	2,423	1,935
Rare Metals	137	118	142
Corporate / Eliminations	(31)	(60)	(45)
Consolidated Volumes	**3,510**	**4,206**	**3,303**
Net Income	**$ 22,701**	**$ 7,617**	**$ 518**
Attributable to:			
Equity holders of Neo	22,350	7,446	363
Non-controlling interest	351	171	155
Earnings per share attributable to equity holders of Neo			
Basic	$ 0.55	$ 0.20	$ 0.01
Diluted	$ 0.54	$ 0.20	$ 0.01
Adjusted Net Income (2)	**$ 23,465**	**$ 15,094**	**$ 869**
Attributable to:			
Equity holders of Neo	23,114	14,923	714
Non-controlling interest	351	171	155
Adjusted Earnings per Share attributable to equity holders of Neo (2):			
Basic	$ 0.57	$ 0.40	$ 0.02
Diluted	$ 0.56	$ 0.39	$ 0.02
Capital expenditures excluding business combination	$ 6,782	$ 1,736	$ 1,502
Cash taxes paid	$ 1,365	$ 1,252	$ 2,598
Dividends paid to shareholders	$ 3,183	$ 3,085	$ 2,836
Repurchase of common shares under Normal Course Issuer Bid	$ —	$ 37	$ 950

	March 31,	December 31,	
	2022	2021	2020
Cash and cash equivalents	$ 61,143	$ 89,037	$ 72,224
Debt	$ 18,935	$ 6,502	$ 2,428

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 months ended March 31, 2022

Consolidated Results

- For the three months ended March 31, 2022, revenues of $166.3 million were 27.1% higher, than the three months ended March 31, 2021. All three segments experienced an increase in revenues. Selling prices for rare earth products (including Magnequench powders) rose significantly starting from the fourth quarter of 2020 through most of the first quarter of 2022. 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 $28.7 million and net income of $22.7 million for the three months ended March 31, 2022. Operating income in the three months ended March 31, 2022 was higher in C&O and Rare Metals but lower in Magnequench.

- Operationally, all segments reported significant increases in volume, revenue, and earnings year-over-year. Magnequench saw weaker volume across the majority of its applications due primarily to customer slowdowns in Asia related to COVID-19 and the slowdown in automotive due to the semi-conductor chip shortage. C&O saw continued strong demand particularly for its magnetic based rare earth elements. Rare Metals saw continued recovery in aerospace markets as well as new demand from new customers in new end markets. All end markets have shown significant volume recoveries from prior year as COVID-19 related issues continue to diminish.

- Adjusted EBITDA[1] for the three months ended March 31, 2022 was $33.1 million, an increase of $10.7 million or 47.6% compared to the same period of the prior year. Similar to operating income, in the three months ended March 31, 2022, Adjusted EBITDA[1] was higher in C&O and Rare Metals but lower in Magnequench.

- Neo continues to see longer-term growth in demand for many of its key products driven by several global macro trends, including the following: 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 months ended March 31, 2022 was $10.2 million, a decrease of $0.9 million or 7.7% compared to the three months ended March 31, 2021. For the three months ended March 31, 2022, Adjusted EBITDA[1] in the Magnequench segment was $12.8 million, compared to $13.4 million in the three months ended March 31, 2021; a decrease of $0.7 million or 4.9%.

- For the three months ended March 31, 2022, volumes in the Magnequench segment saw a decline with respect to the prior year period as well as sequentially. Volumes in the three months ended March 31, 2022 were particularly impacted by three factors. First, the recent spike in COVID-19 has affected the free flow of people and production supplies across many parts of Asia. Second, the occurrence of several natural disasters impacted production facilities and customers in Asia. Third, the on-going semiconductor chip shortage is continuing to affect customers in the automotive and other industries. Although Magnequench's products are distributed on global basis, many of its next tier customers are located in Asia and were impacted by the above factors in the first three months of 2022 and continuing early into the second quarter of 2022.

- Margins in the Magnequench segment were particularly strong in the three months ended March 31, 2022 due to increasing rare earth magnetic prices which began in the fourth quarter of 2020 and continued to mid-March 2022. Magnequench has pass-through agreements on the vast majority of its contracts and with rising rare earth magnetic prices, Magnequench has been passing through the higher replacement costs while utilizing some of the lower cost inventory on hand. Pass-through is a key strategic focus of Magnequench and ensures that Magnequench focuses on generating long term sustainable and value-added margins.

- 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.

Chemicals & Oxides ("C&O") Segment

- For the three months ended March 31, 2022, revenue in the C&O segment was $67.7 million, compared to $54.4 million in the same period in 2021; an increase of $13.3 million or 24.4%. For the three months ended March 31, 2022, Adjusted EBITDA(1) was $19.9 million, compared to $12.9 million in the same period in the prior year; an increase of $7.0 million or 54.1%.

- The C&O segment continues to see strong demand for various rare earth products, particularly its magnetic-based products. The demand (and price) for these magnetic elements continues to increase given their use in the electrification of automobiles and other environmentally sustainable technologies. The combination of higher prices and higher demand for magnetic rare earth products resulted in strong financial performance for the C&O segment compared to the prior periods, particularly driven by premium sales to key customers in March, where rare earth prices peaked in the quarter. Higher prices supported higher dollar value margins in C&O's rare earth separations business in addition to the impact of having lower cost inventory on hand. In C&O's environmental catalysts business, volumes were reasonably strong in the three months ended March 31, 2022, although they were slower than the comparable quarter in the prior year, which benefited from customers refilling their supply chains. Volumes were negatively impacted by the slowdown of automotive production but rebounded a little after lower volumes in the third and fourth quarter of 2021. C&O's environmentally protective water treatment solutions business continues to perform well with higher volume and new customer adoption, although sales volume growth expectations were partially impacted by the challenges in global shipping and logistics availability.

Rare Metals Segment

- For the three months ended March 31, 2022, the Rare Metals segment reported an operating income of $3.7 million, compared to $0.3 million in the same period of 2021; an increase of $3.5 million or 1,343%. For the three months ended March 31, 2022, Adjusted EBITDA(1) in the Rare Metals segment was $4.3 million, compared to $0.9 million in the same period in 2021; an increase of $3.4 million or 381%.

- Rare Metals continued its trend of a strong fourth quarter of 2021 with a strong first quarter of 2022. Rare Metals showed strength in pricing for key products such as hafnium and tantalum while benefiting from lower cost inventory on hand. The recycling purchases and activities of Rare Metals was particularly impactful to lowering its overall material costs.

- The improvement in the Rare Metals business in the three months ended March 31, 2022 was also attributed to progress made in several key strategic initiatives in the segment, including selling more products outside of the aerospace industry, expanding its customer base, and 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 that require higher purity and more demanding specifications. Sales prices in a number of end markets have recovered and gallium-based products are exhibiting improved market demand.

Cash and Other Highlights for the three months ended March 31, 2022

- Neo continues to have a strong financial position. As at March 31, 2022, Neo had $61.1 million in cash, $1.3 million in restricted cash, and $18.9 million in short-term debt, resulting in net cash of $43.5 million. Cash generation has been negatively impacted in the three months ended March 31, 2022 as increases in rare earth prices translated into higher-cost rare earth feedstock in inventory. Working capital increased by $66.8 million over December 31, 2021.

- Neo invested $6.8 million in capital expenditures and paid $1.4 million in cash taxes in the three months ended March 31, 2022.

- For the three months ended March 31, 2022, Neo paid dividends to its shareholders of $3.2 million.

4. Non-Operating Geopolitical and Other Global Impacts

Impact of COVID-19 Pandemic

The impacts of COVID-19 on economic activity and on Neo's results were most pronounced in the second and third quarters of 2020. Neo operates in numerous regions of the world, through complex global supply chains which were each impacted differently and on varying timelines. Throughout 2020, Neo's sales were negatively impacted by customers shutting down operations, cancelling orders, delaying orders and other changes due to customer's managing inventory levels. Neo's internal operations were also affected with shutdowns or slowdowns in production at Neo's manufacturing plants in China, Estonia, the United States and Canada, each to varying degrees or for varying timeframes. 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 performance in 2020.

In response to the COVID-19 pandemic and in addition to the existing robust health and safety policies already instituted at Neo, Neo established additional protocols and provided employees training on Neo's COVID-19 policies and procedures. Neo implemented temperature screen and health checks upon entry to all facilities and redesigned workspaces and workflows to enable better physical distancing, where possible and appropriate. In addition, numerous other activities, such as travel, were curtailed to support lowering the risk of transmission and certain other activities were curtailed to control cost and working capital in light of lower demand.

Although much of the global economic system has been returning to normalized levels in the periods since 2020, there continues to be challenges and hurdles impacting various regions and over different time frames. These challenges include recent spikes of COVID-19 in early 2022 (particularly impacting flow of people and production in Asia), continued availability challenges and cost increases in global shipping, and the decreased availability of semiconductors used by the automotive and other industries.

As at March 31, 2022, Neo does not believe the COVID-19 has a continuing impact on liquidity. Neo has cash balances of $61.1 million and restricted cash of $1.3 million with $18.9 million in short-term debt. 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 March 31, 2022, 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 continues to make appropriate capital investments to support its existing business and for future growth with $6.8 million in the first quarter of 2022. As at March 31, 2022, Neo has continued to consistently pay dividends to its shareholders.

Neo continues 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.

Potential Impact of Ongoing Conflict with Russia in Ukraine

The recent action of Russian military forces in Ukraine has escalated tensions between Russia and the U.S., North Atlantic Treaty Organization ("**NATO**"), European Union ("**EU**"), United Kingdom ("**UK**") and other countries. Several countries have recently imposed a series of new sanctions targeting Russia, two separatist pro-Russian regions in Ukraine and certain individuals, banks and corporations that are seen as allies to the administration in Russia.

Neo's Silmet facility sources the majority of its rare earth feedstock from a Russian supplier. Buss & Buss sources a small amount of its tantalum scrap from a recycled source in the Baltic States which may receive some stock from Russia. Neo has engaged an advisory firm to assess the impact of these sanctions on its business. Neo currently expects, but cannot be certain, that these sanctions will not materially affect its access to the inputs it needs to operate. The removal of Russian banks from the Swift messaging system may make it more difficult for Neo to pay its Russian suppliers. Moreover, counter-measures taken by Russia, and any further sanctions imposed by various countries and governments, could have negative impacts on regional and global financial markets and economic conditions. The situation is changing rapidly and Neo cannot be certain on the extent of the conflict and the related government actions will impact Neo's material sourcing or global markets in the future.

5. Consolidated Results of Operations

Comparison of the three months ended March 31, 2022 to the three months ended March 31, 2021

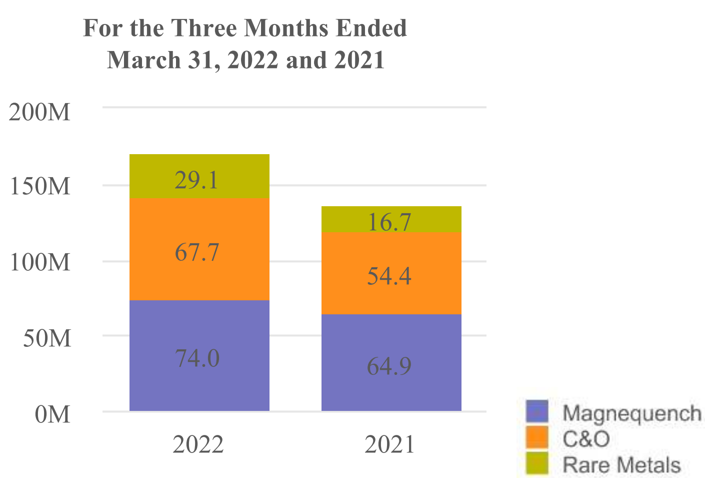
($000s)	Three Months Ended March 31,	
	2022	**2021**
Revenue	166,282	130,855
Costs of sales		
Costs excluding depreciation and amortization	114,316	90,920
Depreciation and amortization	2,378	1,879
Gross profit	**49,588**	**38,056**
Expenses		
Selling, general and administrative	14,252	14,060
Share-based compensation	181	1,592
Depreciation and amortization	1,896	1,955
Research and development	4,574	4,041
	20,903	21,648
Operating income	**28,685**	**16,408**
Other expense	(433)	(6,074)
Finance cost, net	(414)	(216)
Foreign exchange loss	(411)	(301)
Income from operations before income taxes and equity income of associates	**27,427**	**9,817**
Income tax expense	(5,995)	(3,133)
Income from operations before equity income of associates	**21,432**	**6,684**
Equity income of associates (net of income tax)	1,269	933
Net income	**$ 22,701**	**$ 7,617**
Attributable to:		
Equity holders of Neo	22,350	$ 7,446
Non-controlling interest	351	171
	$ 22,701	**$ 7,617**
Earnings per share attributable to equity holders of Neo:		
Basic	$ 0.55	$ 0.20
Diluted	$ 0.54	$ 0.20

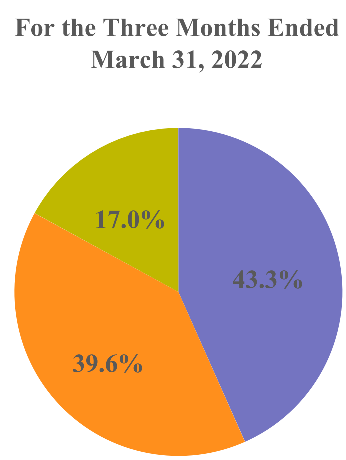
Revenue

Neo's consolidated revenue for the three months ended March 31, 2022, consolidated revenue was $166.3 million compared to $130.9 million for the three months ended March 31, 2021; an increase of $35.4 million or 27.1%.

($000s)	Three Months Ended March 31,					
	2022		**2021**		**Change**	**%**
Magnequench	$	74,015	$	64,905	$ 9,110	14.0%
C&O		67,662		54,390	13,272	24.4%
Rare Metals		29,062		16,716	12,346	73.9%
Eliminations		(4,457)		(5,156)	699	(13.6%)
Consolidated Revenue	**$**	**166,282**	**$**	**130,855**	**$ 35,427**	27.1%

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 months ended March 31, 2022 was $4.5 million compared to $5.2 million in the same period of the prior year. 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 March 31, 2022 was $114.3 million or 68.7% of revenue, compared to $90.9 million or 69.5% 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, and product mix within the business segments.

Consolidated depreciation and amortization in costs of sales were $2.4 million for the three months ended March 31, 2022 compared to $1.9 million in the prior year. Consolidated depreciation and amortization in costs of sales in the three months ended March 31, 2022 increased due to the accelerated amortization of the property, plant and equipment in the one of the facilities in China.

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 months ended March 31, 2022, SG&A expense was $14.3 million comparable to $14.1 million in the corresponding period last year.

Share-based compensation

For the three months ended March 31, 2022, share-based compensation was $0.2 million compared to $1.6 million for the three months ended March 31, 2021. The higher expense in 2021 is mainly due to the higher share price for Neo's common shares increasing the fair value of the cash-settled awards and increased service period expense for awards granted in 2020.

Depreciation and amortization

Depreciation and amortization unrelated to production for the three months ended March 31, 2022 was $1.9 million comparable to $2.0 million in the three months ended March 31, 2021.

R&D

For the three months ended March 31, 2022, R&D expense was $4.6 million, compared to $4.0 million in the corresponding period in 2021. 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.

Other income (expense)

Neo reported other expense of $0.4 million for the three months ended March 31, 2022, compared to $6.1 million for the three months ended March 31, 2021. In the three months ended March 31, 2021, Neo recorded other expense for estimated damage claims related to legal proceedings and costs for the disposal of historically generated naturally occurring radioactive materials ("**NORM**"), 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 months ended March 31, 2022 was $0.4 million compared to $0.2 million in the same period last year. 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.

As at March 31, 2022, Neo had approximately $18.9 million in bank advances and other short-term loans. As at March 31, 2021, $0.5 million was drawn from the line of credit.

Income tax expense

For the three months ended March 31, 2022, Neo had an income tax expense of $6.0 million on income from operations before taxes of $27.4 million. For the three months ended March 31, 2021, Neo had an income tax expense of $3.1 million on income from operations before taxes of $9.8 million.

Neo's effective income tax rates were 21.9% for the three months ended March 31, 2022 and 31.9% for the three months ended March 31, 2021.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of $6.8 million for the three months ended March 31, 2022, compared to $1.7 million for the three months ended March 31, 2021. 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.

Neo has made initial investments, including acquiring the rights to the new land location and paid engineering design costs to evaluate the planned upgrade, expansion, and relocation of Neo's environmental catalyst production facilities. Neo continues to work on the engineering design associated with this relocation and would likely begin construction in 2022.

Legal contingencies

Neo operates in a high technology and advanced engineering product environment in which many patents have been issued over time. The subsidiaries of Neo are currently, and may in the future become, involved in legal proceedings alleging patent infringement. At present, Neo is defending against patent infringement legal proceedings filed in Germany, the United Kingdom, the People's Republic of China, and Estonia. Additionally, Neo has initiated proceedings to invalidate certain patents of Neo's competitors issued in these same jurisdictions.

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

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

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

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

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

In April 2018, the UK High Court of Justice determined that certain of Neo C&O (Europe)'s products infringed the equivalent UK patent 338. Neo C&O (Europe) appealed the trial court judgment of infringement but in October of 2019 the judgment of infringement was affirmed. In 2020 Neo C&O (Europe) reached a confidential settlement with the plaintiffs, Rhodia Operations S.A.S. and Anan Kasai Co. Ltd., for some of the damage claims. A trial on the plaintiffs' remaining claims for damages took place in January and February 2022. On March 29, 2022, the Court ruled that the plaintiffs were not entitled to any damages for the remaining claims. The plaintiffs have been granted the right to appeal the trial court's judgment, and the appeal is pending.

On April 18, 2018, the Patent Reexamination Board of the State Intellectual Property Office of China ("**PRB**") ruled in favor of ZAMR, a Chinese subsidiary of Neo, by invalidating all claims associated with Chinese patent ZL 03817110.4, held by Rhodia Operations S.A.S., an affiliate of Brussels-based Solvay ("**Rhodia Operations**"). On May 23, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by Rhodia Operations alleging infringement of Chinese patent ZL 03817110.4. Rhodia Operations has appealed the decisions of the PRB and the Intermediate People's Court of Zibo concerning Patent ZL 03817110.4. In December 2020, the Beijing IP Court upheld the ruling of the PRB invalidating all claims associated with patent ZL 03817110.4. Rhodia Operations appealed the decision of the Beijing IP Court. On April 1, 2022, the Supreme People's Court upheld the ruling of the Beijing IP Court and the judgment invalidating patent ZL 03817110.4 is now final.

On September 26, 2018, the PRB again ruled in favor of ZAMR by invalidating all product claims associated with patent ZL 200710146613.6, held by Daiichi Kigenso Kagaku Kogyo Co. ("**DKKK**"). The PRB upheld the validity of Claim 4, which is a method claim. In December 2020, the Beijing IP Court upheld the ruling of the PRB invalidating claims 1 through 3 of patent ZL 200710146613.6. DKKK's appeal of this judgment to the Supreme People's Court is pending. On October 24, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by DKKK and Rhodia Operations alleging infringement of patent ZL 200710146613.6. On

November 22, 2019, the Shandong Higher Court reversed the ruling of the Zibo Intermediate Court and ordered that the case be transferred to the Ji'nan Intermediate Court for a trial on alleged infringement of Claim 4. However, in May of 2021 DKKK and Rhodia Operations withdrew their suit alleging infringement of Claim 4.

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

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

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

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

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

Patent Reference	Jurisdiction of Claim	Specified Damages by Claimant
European patent 0863846 B1	Germany	$8.7 million
European patent 0735984 B1	Germany	
European patent 0605274 B1	Germany	
Chinese patent ZL 96196505.3	China	$7.1 million
European Patent EP 3009403	Estonia	$0.1 million
European & UK patents 1435338 B1	Germany	$42.4 million
European & UK patents 1435338 B1	UK	Not specified
European patent 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified

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

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

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

6. Non-IFRS Financial Measures

This MD&A makes reference to certain non-IFRS financial measures and ratios. 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 and non-IFRS ratios, 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 and non-IFRS ratios in order to facilitate operating performance comparisons from period to period. Neo defines such financial measures and ratios as follows:

Non-IFRS financial measures

"**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 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;

"**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

Non-IFRS ratios

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

"**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;

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.

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

($000s, except volume)	**Three Months Ended March 31,**			
	2022	**2021**	**Change**	%
Net income	**$ 22,701**	**$ 7,617**	**$ 15,084**	198.0%
Add back (deduct):				
Finance cost, net	414	216	198	
Income tax expense	5,995	3,133	2,862	
Depreciation and amortization included in costs of sales	2,378	1,879	499	
Depreciation and amortization included in operating expenses	1,896	1,955	(59)	
EBITDA	**33,384**	**14,800**	**18,584**	125.6%
Adjustments to EBITDA:				
Other expense (1)	433	6,074	(5,641)	
Foreign exchange loss (2)	411	301	110	
Equity income of associates	(1,269)	(933)	(336)	
Share-based compensation (3)	181	1,592	(1,411)	
Other (recoveries) costs (4)	(22)	602	(624)	
Adjusted EBITDA	**$ 33,118**	**$ 22,436**	**$ 10,682**	47.6%
Adjusted EBITDA Margins	*19.9%*	*17.1%*		
Less:				
Capital expenditures	$ 6,782	$ 1,736	$ 5,046	290.7%
Free Cash Flow	**$ 26,336**	**$ 20,700**	**$ 5,636**	27.2%
Free Cash Flow Conversion (5)	79.5%	92.3%		
Revenue	$ 166,282	$ 130,855	$ 35,427	27.1%
Sales volume (tonnes)	3,510	4,206	(696)	(16.5%)

Notes:

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

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

(3) Represents share-based compensation expense in respect of the Plan and the LTIP.

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

Reconciliation of Net Income to Adjusted Net Income:

($000s)	Three Months Ended March 31, 2022		Three Months Ended March 31, 2021	
Net income	**$**	**22,701**	**$**	**7,617**
Adjustments to net income:				
Foreign exchange loss [(1)]		411		301
Share-based compensation [(2)]		181		1,592
Other (recoveries) costs [(3)]		(22)		602
Other items included in other expense [(4)]		547		6,179
Tax impact of the above items		(353)		(1,197)
Adjusted net income	**$**	**23,465**	**$**	**15,094**
Attributable to:				
Equity holders of Neo	$	23,114	$	14,923
Non-controlling interest	$	351	$	171
Weighted average number of common shares outstanding:				
Basic		40,681,191		37,481,638
Diluted		41,149,323		37,814,133
Adjusted earnings per share attributable to equity holders of Neo:				
Basic	$	0.57	$	0.40
Diluted	$	0.56	$	0.39

Notes:

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

(2) Represents share-based compensation expense in respect of the Plan and the LTIP.

(3) 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.

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

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

($000s, except volume)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021	Change	%
Operating income	**$ 10,236**	**$ 11,090**	**$ (854)**	(7.7%)
Net income	**$ 8,749**	**$ 9,238**	**$ (489)**	(5.3%)
Add back (deduct):				
Finance cost (income), net	18	(47)	65	
Income tax expense	2,394	2,450	(56)	
Depreciation and amortization included in costs of sales	907	799	108	
Depreciation and amortization included in operating expenses	1,479	1,525	(46)	
EBITDA	**13,547**	**13,965**	**(418)**	(3.0%)
Other income (1)	(113)	(19)	(94)	
Foreign exchange loss (2)	457	401	56	
Equity income of associates	(1,269)	(933)	(336)	
Share-based compensation (3)	156	18	138	
Adjusted EBITDA(I)	**$ 12,778**	**$ 13,432**	**$ (654)**	(4.9%)
Adjusted EBITDA Margins(II)	17.3%	20.7%		
Revenue	$ 74,015	$ 64,905	$ 9,110	14.0%
Sales volume (tonnes)	1,305	1,725	(420)	(24.3%)

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 gains and losses that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.

(3) Represents share-based compensation expense in respect of the Plan and the LTIP.

For the three months ended March 31, 2022, revenue in the Magnequench segment was $74.0 million, compared to $64.9 million in the three months ended March 31, 2021; an increase of $9.1 million or 14.0%. For the three months ended March 31, 2022, volume was 1,305 tonnes compared to 1,725 tonnes in the three months ended March 31, 2021; a decrease of 24.3%. 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 months ended March 31, 2022 was $10.2 million, a decrease of $0.9 million or 7.7% compared to the three months ended March 31, 2021.

For the three months ended March 31, 2022, volumes in the Magnequench segment saw a decline with respect to the prior year period as well as sequentially. Volumes in the three months ended March 31, 2022 were particularly impacted by three factors. First, the recent spike in COVID-19 has affected the free flow of people and production supplies across many parts of Asia. Second, the occurrence of several natural disasters impacted production facilities and customers in Asia. Third, the on-going semiconductor chip shortage is continuing to affect customers in the automotive and other industries. Although Magnequench's products are distributed on global basis, many of its next tier customers are located in Asia and were impacted by the above factors in the first three months of 2022 and continuing early into the second quarter of 2022.

Margins in the Magnequench segment were particularly strong in the three months ended March 31, 2022 due to increasing rare earth magnetic prices which began in the fourth quarter of 2020 and continued to mid-March 2022. Magnequench has pass-through agreements on the vast majority of its contracts and with rising rare earth magnetic prices, Magnequench has been passing through the higher replacement costs while utilizing some of the lower cost inventory on hand. Pass-through is a key strategic focus of Magnequench and ensures that Magnequench focuses on generating long term sustainable and value-added margins.

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.

For the three months ended March 31, 2022, Adjusted EBITDA(I) in the Magnequench segment was $12.8 million, compared to $13.4 million in the three months ended March 31, 2021; a decrease of $0.7 million or 4.9%.

7.2 Chemicals & Oxides

($000s, except volume)	**Three Months Ended March 31,**			
	2022	**2021**	**Change**	**%**
Operating income	**$ 18,477**	**$ 12,122**	**$ 6,355**	52.4%
Net income	**$ 15,230**	**$ 4,870**	**$ 10,360**	212.7%
Add back (deduct):				
Finance cost, net	89	8	81	
Income tax expense	2,388	216	2,172	
Depreciation and amortization included in costs of sales	979	510	469	
Depreciation and amortization included in operating expenses	282	283	(1)	
EBITDA	**18,968**	**5,887**	**13,081**	222.2%
Other expense (1)	513	7,081	(6,568)	
Foreign exchange loss (gain) (2)	257	(54)	311	
Share-based compensation (3)	172	4	168	
Adjusted EBITDA(I)	**$ 19,910**	**$ 12,918**	**$ 6,992**	54.1%
Adjusted EBITDA Margins(II)	29.4%	23.8%		
Revenue	$ 67,662	$ 54,390	$ 13,272	24.4%
Sales volume (tonnes)	2,099	2,423	(324)	(13.4%)

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-based compensation expense in respect of the Plan and the LTIP.

For the three months ended March 31, 2022, revenue in the C&O segment was $67.7 million, compared to $54.4 million in the same period in 2021; an increase of $13.3 million or 24.4%.

For the three months ended March 31, 2022, the C&O segment reported operating income of $18.5 million, compared to $12.1 million in the same periods of the prior year; an increase of $6.4 million or 52.4%.

The C&O segment continues to see strong demand for various rare earth products, particularly its magnetic-based products. The demand (and price) for these magnetic elements continues to increase given their use in the electrification of automobiles and other environmentally sustainable technologies. The combination of higher prices and higher demand for magnetic rare earth products resulted in strong financial performance for the C&O segment compared to the prior periods, particularly driven by premium sales to key customers in March, where rare earth prices peaked in the quarter. Higher prices supported higher dollar value margins in C&O's rare earth separations business in addition to the impact of having lower cost inventory on hand. In C&O's environmental catalysts business, volumes were reasonably strong in the three months ended March 31, 2022, although they were slower than the comparable quarter in the prior year, which benefited from customers refilling their supply chains. Volumes were negatively impacted by the slowdown of automotive production but rebounded a little after lower volumes in the third and fourth quarter of 2021. C&O's environmentally protective water treatment solutions business continues to perform well with higher volume and new customer adoption, although sales volume growth expectations were partially impacted by the challenges in global shipping and logistics availability.

For the three months ended March 31, 2022, Adjusted EBITDA[I] was $19.9 million, compared to $12.9 million in the same period in the prior year; an increase of $7.0 million or 54.1%.

7.3 Rare Metals

($000s, except volume)	**Three Months Ended March 31,**					
	2022		**2021**		**Change**	%
Operating income	$	**3,723**	$	**258**	$ **3,465**	1,343%
Net income	$	**2,692**	$	**739**	$ **1,953**	264%
Add back (deduct):						
Finance cost, net		85		331	(246)	
Income tax expense		1,177		451	726	
Depreciation and amortization included in costs of sales		492		570	(78)	
Depreciation and amortization included in operating expenses		66		63	3	
EBITDA		**4,512**		**2,154**	**2,358**	109%
Other expense (income) [1]		33		(988)	1,021	
Foreign exchange gain [2]		(263)		(274)	11	
Share-based compensation [3]		59		11	48	
Adjusted EBITDA[I]	$	**4,341**	$	**903**	$ **3,438**	381%
Adjusted EBITDA Margins[II]		14.9%		5.4%		
Revenue	$	29,062	$	16,716	$ 12,346	73.9%
Sales volume (tonnes)		137		118	19	16.1%

Notes:

(1) Represents other expenses resulting from non-operational related activities, including provisions for estimated costs for disposal of historically generated NORM. 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-based compensation expense in respect of the Plan and the LTIP.

For the three months ended March 31, 2022, revenue in the Rare Metals segment was $29.1 million, compared to $16.7 million in the same period in the prior year; an increase of $12.3 million or 73.9%.

For the three months ended March 31, 2022, the Rare Metals segment reported an operating income of $3.7 million, compared to $0.3 million in the same period of 2021; an increase of $3.5 million or 1,343%.

Rare Metals continued its trend of a strong fourth quarter of 2021 with a strong first quarter of 2022. Rare Metals showed strength in pricing for key products such as hafnium and tantalum while benefiting from lower cost inventory on hand. The recycling purchases and activities of Rare Metals was particularly impactful to lowering its overall material costs.

The improvement in the Rare Metals business in the three months ended March 31, 2022 was also attributed to progress made in several key strategic initiatives in the segment, including selling more products outside of the aerospace industry, expanding its customer base, and 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 that require higher purity and more demanding specifications. Sales prices in a number of end markets have recovered and gallium-based products are exhibiting improved market demand.

For the three months ended March 31, 2022, Adjusted EBITDA(1) in the Rare Metals segment was $4.3 million, compared to $0.9 million in the same period in 2021; an increase of $3.4 million or 381%.

8. Summary of Consolidated Quarterly Results

($000s, except for earnings per share information)	2022	2021				2020		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**$166,282**	**$153,414**	**$119,841**	**$135,141**	**$130,855**	**$110,397**	**$77,864**	**$67,734**
Net income (loss) attributable to equity holders of Neo	**22,350**	**6,735**	**8,036**	**12,960**	**7,446**	**2,219**	**423**	**(60,936)**
Basic EPS	0.55	0.17	0.21	0.34	0.20	0.06	0.01	(1.62)
Diluted EPS	0.54	0.17	0.21	0.34	0.20	0.06	0.01	(1.62)
Operating income (loss)	**28,685**	**12,726**	**12,558**	**18,195**	**16,408**	**3,190**	**1,137**	**(64,993)**
Net income (loss)	**22,701**	**7,263**	**8,136**	**13,027**	**7,617**	**2,356**	**401**	**(63,364)**
Add back (deduct):								
Finance cost (income), net	414	1,523	747	1,457	216	(2,484)	99	2,318
Income tax expense (benefit)	5,995	(702)	3,670	3,479	3,133	832	1,198	(3,229)
Depreciation and amortization included in Costs of Sales	2,378	2,405	1,980	1,912	1,879	1,999	1,996	2,715
Depreciation and amortization included in operating expenses	1,896	1,891	1,908	1,935	1,955	1,899	1,797	2,018
EBITDA	**33,384**	**12,380**	**16,441**	**21,810**	**14,800**	**4,602**	**5,491**	**(59,542)**
Add back:								
Other expense (income) (1)	433	4,351	(462)	(213)	6,074	2,253	92	(221)
Foreign exchange loss (gain) (2)	411	2,544	755	788	301	211	128	(138)
Equity (income) loss of associates	(1,269)	(2,253)	(288)	(343)	(933)	22	(781)	(359)
Share and value-based compensation (3)	181	1,765	1,198	(29)	1,592	3,584	931	(153)
Impairment of assets (4)	—	121	—	—	—	—	—	59,084
Other (recoveries) costs (5)	(22)	744	6	164	602	1,636	(131)	2,520
Adjusted EBITDA(I)	**$33,118**	**$19,652**	**$17,650**	**$22,177**	**$22,436**	**$12,308**	**$ 5,730**	**$ 1,191**
Adjusted EBITDA Margins(II)	*19.9%*	*12.8%*	*14.7%*	*16.4%*	*17.1%*	*11.1%*	*7.4%*	*1.8%*

Notes:

(1) Represents other expenses resulting from non-operational related activities, including provisions for estimated damages for outstanding legal claims related to historic volumes, costs for disposal of NORM. 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 Plan, the Legacy Plan, the LTIP and the long-term value bonus plan. The long-term value bonus plan 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

Three months ended March 31, 2022 compared to three months ended March 31, 2021:

	Three Months Ended March 31,	
($000s)	**2022**	**2021**
Cash flow:		
Cash used in operating activities	$ (30,024)	$ (6,094)
Cash used in investing activities	(6,782)	(1,315)
Cash provided by (used in) financing activities	8,836	(8,425)

Financial position - as at	**March 31, 2022**	**December 31, 2021**
Cash and cash equivalents	$ 61,143	$ 89,037
Restricted cash	1,312	1,283
Property, plant and equipment	77,140	73,378
Total assets	611,574	594,082
Bank advances and other short-term debt	18,935	6,502

As of March 31, 2022, Neo had cash and cash equivalents of $61.1 million plus restricted cash of $1.3 million, compared to $89.0 million plus $1.3 million as at December 31, 2021. In the three months ended March 31, 2022, Neo paid $3.2 million in dividends to its shareholders. In addition, Neo has approximately $41.3 million available under its credit facilities with $18.9 million drawn as at March 31, 2022, compared to $6.5 million drawn as at December 31, 2021. Subsequent to March 31, 2022, an additional $2.8 million was drawn. Neo's financial position and ability to generate cash from its operations in the short and long-term remain sound.

The primary cash inflows and outflows contributing to the change from December 31, 2021 were the following:

Inflows

- $38.3 million from operations before net change in working capital, income taxes paid and net interest received;
- $12.4 million from bank advances and other short-term debts;

Outflows

- $3.2 million of dividends paid to shareholders;
- $0.5 million of lease payments;
- $6.8 million of other capital spending;
- $1.4 million of income taxes paid; and
- $66.8 million net change in working capital.

Cash Used in Operating Activities

Net cash used in operating activities was $30.0 million during the three months ended March 31, 2022, compared to net cash provided by operating activities of $6.1 million for the three months ended March 31, 2021. Higher cash used in operating activities was primarily due to an increase in net working capital.

The $66.8 million net change in working capital for the three months ended March 31, 2022, was primarily attributable to the increase in accounts receivable from higher sales particularly in the last month of this quarter, higher inventory costs driven by higher rare earth costs and C&O produced and holding more finished good in preparation for the upgrade, expansion and relocation of its environmental catalyst production facility, and a decrease in accounts payable and other accrued charges which are generally lower at the end of the first quarter of each year due to timing of certain expenditures, such as bonuses, audit fees and customer rebates.

Cash Used in Investing Activities

For the three months ended March 31, 2022, net cash used in investing activities was $6.8 million, compared to $1.3 million in the three months ended March 31, 2021. 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. In addition, Neo has made initial investments to acquire the land use right in the design phase to evaluate the planned upgrade, expansion and relocation of Neo's environmental catalyst production facilities.

Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities during the three months ended March 31, 2022 was $8.8 million, compared to $8.4 million net cash used in 2021. In the three months ended March 31, 2022, Neo drew $12.4 million from its credit facilities, distributed $3.2 million in dividends to its shareholders, and spent $0.5 million in lease payments. In the three months ended March 31, 2021, Neo distributed $3.1 million in dividends to its shareholders and spent $0.3 million in lease payments.

($000s)

Cash and cash equivalents by Country as at	**March 31, 2022**	**December 31, 2021**
China (including Hong Kong)	$ 13,340	$ 24,627
Estonia	621	2,034
United States	3,443	3,113
Canada	23,627	38,903
Japan	1,950	2,612
United Kingdom	1,842	3,273
Germany	5,977	6,225
Singapore	6,732	2,761
Barbados	114	298
Thailand	2,518	4,248
Cayman Islands	9	6
Other	970	937
Total cash and cash equivalents	**$ 61,143**	**$ 89,037**

Approximately $6.6 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, Estonia 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.

	Payments Due by Period				
($000s)	**1 year**	**2 - 3 years**	**4 - 5 years**	**Thereafter**	**Total**
Bank advances and other short-term debts	$ 18,935	$ —	$ —	$ —	18,935
Accounts payable and other accrued charges	67,062	—	—	—	67,062
Derivative liability (1)	14,733	—	—	—	14,733
Provisions (2)	3,640	22,913	—	—	26,553
Lease obligations (3)	1,279	1,072	72	31	2,454
Other liabilities	3,084	1,158	84	205	4,531
Total	**$ 108,733**	**$ 25,143**	**$ 156**	**$ 236**	**$ 134,268**

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 March 31, 2022, Neo had $61.1 million of cash and cash equivalents and approximately $1.3 million of restricted cash. The restricted cash is held as collateral against Letters of Credit. Neo believes that the remainder of its cash, in addition to cash from operating activities, is available (or sufficient) to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months. Neo considers cash to be "available" to the extent it can be utilized in operating activities, for capital expenditures, for intercompany loans or for repatriation. Neo also maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

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.

For the three months ended March 31, 2022, Neo did not repurchase or cancel any shares. For the three months ended March 31, 2021, Neo repurchased and canceled 3,400 shares for a nominal amount.

12. Subsequent Events

Dividends payable to equity holders of Neo

On May 12, 2022, the Board of Directors declared a quarterly dividend of Cdn. $0.10 per common share payable in cash on June 28, 2022, to common shareholders of record at the close of business on June 20, 2022.

13. Off-Balance Sheet Arrangements

As of March 31, 2022, 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 9, 2022. Neo cautions readers that the actual results could differ materially from those estimates and assumptions.

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 months ended March 31, 2022, Neo purchased $0.6 million worth of compounds from TMT, purchased metals and received services from Keli amounting to $26.3 million, and received services from GQD and its associates amounting to $6.1 million.

For the three months ended March 31, 2022, Neo sold Magnequench Powders and performed services amounting to $2.6 million to TMT. For the three months ended March 31, 2022, Neo sold oxides to Keli amounting to $0.7 million.

For the three months ended March 31, 2021, Neo purchased $0.5 million worth of compounds from TMT, purchased metals and received services from Keli amounting to $20.3 million, and received services from GQD amounting to $3.9 million.

For the three months ended March 31, 2021, Neo sold Magnequench Powders and performed services, respectively, amounting to $1.6 million to TMT. For the three months ended March 31, 2021, Neo sold oxides to Keli amounting to $1.4 million.

Transactions with joint venture partners

Neo, through its sales company in Japan, Neo Japan Inc., has occasionally purchased Gallium from Beijing Jiya Semiconductor Material Co., Ltd. ("**Beijing Jiya**") for resale to third party customers. No purchases were made in the three months ended March 31, 2022 and 2021.

Neo also has occasionally purchased and sold products from and to Ganzhou Qian Dong Rare Earth Group Co. Ltd. ("**Qian Dong**") and Toda Kogyo Corp. ("**Toda**"). For the three months ended March 31, 2022, purchases from Qian Dong were $1.6 million. For the three months ended March 31, 2022, sales to Toda were $0.5 million.

For the three months ended March 31, 2021, purchases from Qian Dong were $0.4 million. Sales to Toda for the three months ended March 31, 2021 were $0.2 million.

Transactions with other related parties

Neo, through one of its subsidiaries in China, MQCZ, has occasionally sold products to Atatsu Co., Ltd. ("**Atatsu**") for resale to third party customers. Atatsu is controlled by members of MQCZ's key management personnel. For the three months ended March 31, 2022, sales to Atatsu were $0.3 million. For the three months ended March 31, 2021, sales to Atatsu were $0.1 million.

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

	Three Months Ended March 31,	
	2022	**2021**
Sale of goods and services to related parties	$ 4,092	$ 3,297
Purchase of goods and services from related parties	34,708	25,034

	March 31, 2022	**December 31, 2021**
Trade balances:		
from related parties	$ 2,043	$ 2,070
due to related parties	(10,677)	(25,925)
Total	**$ (8,634)**	**$ (23,855)**

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 compensations and share-based compensation expenses.

Neo's short-term compensations are as follows:

($000s)	**Three Months Ended March 31,**	
	2022	**2021**
Directors	$ 99	$ 86
Key Executive Management	1,303	959
Total	$ 1,402	$ 1,045

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

($000s)	**Three Months Ended March 31,**	
	2022	**2021**
Directors	$ (470)	$ 550
Key Executive Management	452	910
Total	$ (18)	$ 1,460

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 March 31, 2022, are grouped into the fair value hierarchy as follows:

($000s)	**Level 1**	**Level 2**	**Level 3**
Financial Assets:			
Equity securities	$ 1,866	$ —	$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	$ —	$ —	$ 14,733

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

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

There have been no transfers between levels for the period ended March 31, 2022.

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 March 31, 2022, the loss allowance was approximately $0.3 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 March 31, 2022, 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 March 31, 2022:

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

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

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

The amendments were effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. The amendment was adopted by Neo on January 1, 2022. The amendment did not have a material impact on the interim condensed consolidated financial statements.

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

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

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

The new guidance was effective for annual periods starting on or after January 1, 2022 and has been applied retrospectively. The new guidance was adopted by Neo on January 1, 2022. The amendment did not have a material impact on the interim condensed consolidated financial statements.

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

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

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

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

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

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 March 31, 2022 and based on the evaluation, the CEO and CFO have concluded that the DC&P were effective.

Internal controls over financial reporting

Neo's internal controls over financial reporting ("**ICFR**") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Neo's management is responsible for establishing and maintaining adequate ICFR for Neo. National Instrument 52-109 of the Canadian Securities Administrators requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for Neo and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to Neo's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. There have been no material changes during the quarter ended March 31, 2022. Neo's management, under the supervision of the CEO and CFO, has evaluated the design and operating effectiveness of Neo's ICFR based on the Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As at March 31, 2022, 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 9, 2022 and Neo's 2021 Annual Information Form ("**AIF**").

20. Outstanding Shares Data

Class of Equity Security	**Numbers Outstanding as at March 31, 2022**
Common Shares	40,681,902
Stock Options*	1,158,228
Restricted Share Units & Performance Stock Units	301,245

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

The number of common shares outstanding as at May 12, 2022 is 40,681,902.

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.

MD&A Endnotes

I. See Section 8 "*Non-IFRS Measures*", which includes reconciliation of such non-IFRS measures to the most directly comparable IFRS measures.

II. See Sectional 8 "*Non-IFRS Measures*", which includes definitions and calculations of such non-IFRS ratios.