MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2023

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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, 2022, dated March 28, 2023, and the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2023, 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 28, 2023 under "*Risk Factors*". See "*Forward-Looking Information*".

The discussion and analysis in this MD&A are based upon information available to management as of May 10, 2023. 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 10, 2023, 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 1,650 employees and has a global platform that includes 9 manufacturing facilities located in China, the United States ("**U.S.**"), Germany, Canada, Estonia, and Thailand, 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: motors used in various automotive applications for hybrid, electric, and internal combustion engine vehicles; micro motors for household applications like vacuum cleaners, refrigerators, hair dryers, air conditioners and residential heating and cooling circulation pumps; industrial and other sensors; and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

On April 18, 2023, Neo announced that it has agreed to acquire 90% of the outstanding share capital of SG Technologies Group Limited ("**SGTec**"), one of Europe's leading advanced, specialty manufacturers of rare-earth-based and other high-performance magnets for industrial and commercial markets. The acquisition was completed on April 19, 2023. Further details on this acquisition are included under the heading "*Update on Selected Strategic Initiatives"*.

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,		
	2023	2022	2021
Revenue			
Magnequench	$ 55,165	$ 74,015	$ 64,905
C&O	51,289	67,662	54,390
Rare Metals	29,076	29,062	16,716
Corporate / Eliminations	—	(4,457)	(5,156)
Consolidated Revenue	**$ 135,530**	**$ 166,282**	**$ 130,855**
Operating (Loss) Income			
Magnequench	$ 955	$ 10,236	$ 11,090
C&O	(6,126)	18,477	12,122
Rare Metals	5,832	3,723	258
Corporate / Eliminations	(4,658)	(3,751)	(7,062)
Consolidated Operating (Loss) Income	**$ (3,997)**	**$ 28,685**	**$ 16,408**
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") [(1)]			
Magnequench	$ 3,256	$ 12,778	$ 13,432
C&O	(4,562)	19,910	12,918
Rare Metals	6,164	4,341	903
Corporate / Eliminations	(4,071)	(3,911)	(4,817)
Consolidated Adjusted EBITDA	**$ 787**	**$ 33,118**	**$ 22,436**
Net (Loss) Income	**$ (10,700)**	**$ 22,701**	**$ 7,617**
Attributable to:			
Equity holders of Neo	(10,454)	22,350	7,446
Non-controlling interest	(246)	351	171
(Loss) Earnings per share attributable to equity holders of Neo			
Basic	$ (0.23)	$ 0.55	$ 0.20
Diluted	$ (0.23)	$ 0.54	$ 0.20
Adjusted Net (Loss) Income [(2)]	**$ (8,981)**	**$ 23,465**	**$ 15,094**
Attributable to:			
Equity holders of Neo	(8,735)	23,114	14,923
Non-controlling interest	(246)	351	171
Adjusted (Loss) Earnings per Share attributable to equity holders of Neo [(2)]:			
Basic	$ (0.19)	$ 0.57	$ 0.40
Diluted	$ (0.19)	$ 0.56	$ 0.39
Capital expenditures excluding business combination	$ 5,016	$ 6,782	$ 1,736
Cash taxes paid	$ 5,261	$ 1,365	$ 1,252
Dividends paid to shareholders	$ 3,379	$ 3,183	$ 3,085
Repurchase of common shares under Normal Course Issuer Bid	$ —	$ —	$ 37

	March 31,	December 31,	
	2023	2022	2021
Cash and cash equivalents	$ 145,742	$ 147,491	$ 89,037
Bank advances & other short-term debt	$ 3,222	$ 17,288	$ 6,502
Long-term debt	$ 30,665	$ 30,632	$ —

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, 2023

Consolidated Results

- For the three months ended March 31, 2023, revenues of $135.5 million were 18.5% lower than the three months ended March 31, 2022. 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 but have since started to decline. Rare earth prices declined approximately 20%-30% in the three months ended March 31, 2023 for key magnetic elements. As a result of this steep decline, particularly in March 2023, Neo recorded provisions for inventories of $5.6 million in the three months ended March 31, 2023 (including $6.4 million related to C&O separation business). See further discussion on impact of volatility of rare earth prices in section 5.4 under the heading "*Initiatives to Protect Margins Against Movements in Rare Earth Pricing*".

- Neo reported an operating loss of $4.0 million and net loss of $10.7 million for the three months ended March 31, 2023. Operating income in the three months ended March 31, 2023 was higher in Rare Metals but lower in C&O and Magnequench.

- Operationally, Magnequench saw weaker volume across the majority of its applications due primarily to customer slowdowns in Asia (partially related to COVID-19 in China) and the slowdown in automotive due to the semi-conductor chip shortage. C&O saw weak demand for its magnetic based rare earth elements, related partially to the shutdowns imposed by COVID-19 in China and weaker demand in the magnetic end markets. Rare Metals saw continuing strong demand and pricing for products such as Hafnium as well as new demand from new customers in new end markets.

- Adjusted EBITDA(I) for the three months ended March 31, 2023 was $0.8 million, an decrease of $32.3 million or 97.6% compared to the same period of the prior year. Similar to operating income, in the three months ended March 31, 2023, Adjusted EBITDA(I) was higher in Rare Metals but lower in C&O and Magnequench.

- Despite lower demand in magnetic end markets generally in the quarter, 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

- For the three months ended March 31, 2023, revenue in the Magnequench segment was $55.2 million compared to $74.0 million in the same period of 2022; a decrease of $18.9 million or 25.5%. Operating income for the three months ended March 31, 2023 was $1.0 million, a decrease of $9.3 million or 90.7% compared to the three months ended March 31, 2022. For the three months ended March 31, 2023, Adjusted EBITDA(I) in the Magnequench segment was $3.3 million, compared to $12.8 million in the three months ended March 31, 2022; a decrease of $9.5 million or 74.5%.

- For the three months ended March 31, 2023, 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, 2023 were particularly impacted by three factors. First, the release of the zero COVID policy in China saw a spike in COVID-19 cases in China which resulted in dramatic slowdowns in overall economic activity from December 2022. Second, after the COVID impact settled in China, economic activity in China remained low through the Chinese New Year festival and also shifted away from tangible goods and towards services and travel. This continued through the end of the quarter. The sudden change in consumer behavior reduced orders for consumer electronics and home appliance products, in particular, and also led to much higher inventory levels at customers that impact Magnequench volumes. 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 a 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 2023 and continuing early into the second quarter of 2023. To address the economic impact of declining volumes in the short term, Magnequench conducted a rationalization of its work force and various cost cutting measures in the first quarter of 2023.

- Margins per ton in the Magnequench segment were lower in the three months ended March 31, 2023 compared to prior periods. As rare earth magnetic prices continue to decline, Magnequench experienced a negative lead-lag impact in the first three months of 2023 and, to a lesser degree, less fixed cost absorption due to lower volumes. Magnequench has pass-through pricing agreements for rare earth magnetic elements on the vast majority of its sales contracts. Magnequench earns a targeted margin spread per ton when rare earth prices are stable and over the long term. However, the short-term timing mechanics of the pass-through agreements generally show rising margins when rare earth prices rise and declining margins when rare earth prices fall, related primarily to inventory on hand purchased at previous costs. Pass-through is a key strategic focus of Magnequench and ensures that the business can continue to generate long-term sustainable and value-added margins through the long-term.

- 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, 2023, revenue in the C&O segment was $51.3 million, compared to $67.7 million in the same period of 2022; a decrease of $16.4 million or 24.2%. For the three months ended March 31, 2023, the C&O segment reported an operating loss of $6.1 million, compared to an operating income of $18.5 million in the same period of 2022. For the three months ended March 31, 2023, Adjusted EBITDA[1] was a loss of $4.6 million, compared to earnings of $19.9 million in the corresponding period in 2022; a decrease of $24.5 million or 122.9%. Both operating income and Adjusted EBITDA were negatively impacted by a $6.4 million provisions for inventories recorded in the three month period ended March 31, 2023.

- In the three months ended March 31, 2023, the decline in rare earth prices adversely impacted the C&O segment. Rare earth prices, particularly for magnetic rare earth elements, have declined between 20%-30% since December 2022. This rapid decline in rare earth prices has had a negative impact on C&O rare earth reported separation margins as C&O processed raw materials purchased three to five months earlier (at higher raw material input costs). The outlook (both in demand and pricing) remains strong for rare earths which is expected to lead to higher dollar value margins for C&O in the long term. However, the current period was adversely impacted by the immediate and rapid decline of prices while processing higher cost inventory (lead-lag impact) as well as lower volumes for the magnetic elements. The rapid decline in prices also necessitated C&O to record a net $6.4 million of provisions for inventories in the three months ended March 31, 2023.

- In C&O's environmental emissions catalyst business, volumes in the three months ended March 31, 2023 were about 5% lower than the prior year. The decline in volumes can be attributed to the China market as the China market was negatively impacted by the removal of the zero-COVID policy in China in December 2022, causing large COVID infections in China from December 2022 and continuing to slow economic activity through to the Chinese Lunar New Year. Global volumes, outside of China, increased in the current period over prior year. Volumes have seen less of an impact from the semiconductor chip shortage and are distributed more globally than Magnequench volumes and thus, have not experienced the same negative pressures on volume trends as some of Magnequench products. C&O's environmentally protective water treatment solutions business continues to grow year over year with higher volume and new customer adoption.

Rare Metals Segment

- For the three months ended March 31, 2023, revenue in the Rare Metals segment was $29.1 million. This was comparable to the revenue in the corresponding period last year. For the three months ended March 31, 2023, the Rare Metals segment reported an operating income of $5.8 million, compared to $3.7 million in the same period of 2022; an increase of $2.1 million or 57%. For the three months ended March 31, 2023, Adjusted EBITDA[1] in the Rare Metals segment was $6.2 million, compared to $4.3 million in the same period in 2022; an increase of $1.8 million or 42%.

- Rare Metals continued its strong earnings trend in the three months ended March 31, 2023. Hafnium pricing, in particular, has continued its upward trajectory which began in the fourth quarter of 2021. The recycling purchases and activities of Rare Metals were particularly impactful to maintaining and growing margins as the scrap material purchased in the same quarter is not rising as fast as selling prices for finished goods. This was partially offset by Rare Metals reducing tantalum and niobium production related to the timing of raw material purchases.

- The improvement in the Rare Metals business in the three months ended March 31, 2023 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, 2023

- Neo continues to be in a strong financial position. As at March 31, 2023, Neo had $145.7 million in cash, $1.2 million in restricted cash, offset by $3.2 million in bank advances and short-term debt, and $33.9 million in drawn credit facilities, net of transaction costs of $1.2 million, resulting in net cash of $113.0 million as at March 31, 2023. This is an improvement of $12.2 million from December 31, 2022. Neo repaid $14.1 million of its bank advances and other short-term debt in the three months ended March 31, 2023. Cash generation has been positively impacted in the three months ended March 31, 2023 as Neo drew down its higher-cost rare earth feedstock in inventory. Working capital decreased by $23.8 million during the three months ended March 31, 2023.

- Neo invested $5.0 million in capital expenditures and paid $5.3 million in cash taxes in the three months ended March 31, 2023.

- For the three months ended March 31, 2023, Neo paid dividends to its shareholders of $3.4 million.

4. Non-Operating Geopolitical Impacts

Potential Impact of Ongoing Conflict with Russia in Ukraine

The actions of Russian military forces in Ukraine have escalated tensions between Russia and Ukraine, the European Union ("**EU**"), the North Atlantic Treaty Organization ("**NATO**"), United Kingdom ("**UK**"), the U.S., and other countries. Several countries have imposed a series of 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. Through to March 31, 2023, there has been no significant impact on Neo's operations.

Neo's Silmet facility sources the majority of its rare earth feedstock from a Russian supplier. The Buss & Buss facility sources a small amount of its tantalum scrap from a recycled source in the Baltic States which may receive some stock from Russia. As at the date hereof, however, Neo has not had significant issues securing raw material. With the assistance of an advisory firm, Neo continues to monitor the impact of these sanctions on its business including purchases and sales to entities that may have connections to Russia. 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 has made it more difficult for Neo to pay its Russian supplier of rare earth materials (who is not currently restricted by sanctions) and Neo continues to work with global banks to facilitate these allowable payments. Neo cannot be assured that viable payment pathways will exist in the future, as financial institutions limit their business with Russian clients out of caution.

Neo and its suppliers procure natural gas and other energy products in Europe. While prices have increased significantly, supply disruptions have not otherwise affected Neo and its ability to obtain necessary inputs, such as reagents, from its European suppliers.

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. Update on Selected Strategic Initiatives

5.1 NAMCO Relocation

Neo is relocating its environmental emissions catalyst manufacturing facility in China, Neo Jia Hua Advanced Materials (Zibo) Co., Ltd. ("**NAMCO**") to a new facility in a dedicated industrial park in Zibo that features upgraded infrastructure, transportation, and wastewater treatment capabilities. Neo estimates that the expansion, upgrade and relocation of the NAMCO production facility will cost approximately $75.0 million. The new facility will have additional capacity for environmental catalysts and capacity for new products under development. It will also benefit from an improved manufacturing layout, automation and environmental management systems.

The engineering and construction for the new plant is largely on budget and slightly behind schedule (due to the impact of COVID in China in the fourth quarter of 2022 and first quarter of 2023), with a target for completion in the first quarter of 2024. As of March 31, 2023, Neo had spent approximately $12.2 million (RMB 83.2 million) on the relocation efforts, including approximately $4.4 million to secure a 50 year land lease at the new site. To assist with the funding, in August 2022, Neo entered into a $75.0 million credit facility with EDC which envisions three tranches of $25.0 million each to fund anticipated relocation costs. As of March 31, 2023, $25.0 million had been drawn against this facility. Responding to customers' requests, Neo is building an inventory bank to maintain continuity of supply of its environmental catalyst products during the transition and re-qualification period.

Neo does not intend to invest to relocate the light rare earths separation business in Zibo Jiahua Advanced Material Resources Co., Ltd. ("**ZAMR**"). Neo has entered into a non-binding memorandum of understanding with another rare earth separation company in Zibo. Neo will receive a minority stake in the new joint venture in exchange for the value of the ZAMR assets transferred to the new venture. This minority joint venture is also intended to support the continued employment of ZAMR employees involved in rare earth separation and Neo's continued participation and access to light rare earths in China.

5.2 Magnets Manufacturing Footprints in Europe

5.2.1 Sintered Magnets in Europe

With a portion of the proceeds from the bought deal treasury offering which was completed on September 16, 2022, Neo is investing in a new venture to manufacture and distribute sintered rare earth magnets in Europe. These magnets are critical to many future facing applications such as traction motors for electric vehicles. Magnet production and rare earth supply chain security are considered critical elements to all OEM's strategies on electric vehicles.

Neo will take a phased approach to investing in magnet capacity levels in Europe, starting with a Phase 1 expansion to be able to produce 2,000 tonnes of magnet block capacity with the intent to expand in future years. Neo will also, in time, evaluate expanding into North America. The overall strategy includes considerations for rare earth supply, manufacturing and technical capabilities, competitiveness, customer commitments and funding sources (both company funded and government support).

On November 9, 2022, Neo announced it had been awarded a grant of up to $20.4 million (€18.7 million) from the Government of Estonia under Europe's Just Transition Fund ("**JTF**") for eligible project costs of up to $106.9 million (€98.0 million). The terms of the award are guided by the Government of Estonia's regulations on general conditions for granting and using funds from the operational program of the EU cohesion and internal security policy funds for the period 2021-2027 and related regulations, and includes factors such as total eligible costs incurred, and employment created. The grant to Neo is the first such award to any critical materials company in the EU under the JTF program.

Through to March 31, 2023, Neo has spent approximately $1.0 million in out of pocket costs on this endeavour and has allocated significant internal resources for its preparation and execution.

5.2.2 Acquisition of SG Technologies Group Limited ("SGTec")

On April 18, 2023, Neo announced that it has agreed to acquire 90% of the outstanding share capital of SGTec, one of Europe's leading advanced, specialty manufacturers of rare-earth-based and other high-performance magnets for industrial and commercial markets. The acquisition was completed on April 19, 2023.

The purchase is expected to further expand Neo's rare earth processing and magnet manufacturing footprint in Europe in strategic alignment with the Neo's plans to launch production in 2025 of sintered rare earth magnet manufacturing in Estonia for the electric vehicle, electronics, energy-saving specialized motor applications markets, and other high-growth-potential nascent technology applications that are critical to the current global energy transition.

To complete the acquisition, Neo made an initial cash payment of 11.6 million Great British Pounds ("**GBP**") ($14.4 million). In addition, Neo is also contingently required to make a future cash payment based on SGTec's financial performance during its fiscal years ending March 31, 2024, March 31, 2025 and March 31, 2026. The amount of the payment will be between nil and 5.4 million GBP, and will be made in 2026.

The remaining 10% of SGTec will continue to be owned by the members of SGTec's senior management team.

5.3 Initiatives to Diversify Rare Earth Supply

Neo is among the most geographically diverse rare earth value-add companies in the world. Neo has rare earth separation capacity and magnetic powder manufacturing capabilities inside and outside of China. This allows Neo to offer parallel supply chains to some customers for a number of our products. The European magnet manufacturing project, which may also involve expanding rare earth separation capacity in Estonia, is another example of Neo's commitment to meet its global customers' growing demands for rare earth products from diverse regional sources. To that end, Neo considers the continued access to rare earth material, inside and outside of China, to be of strategic importance. Neo currently receives its rare earth feedstocks from numerous geographies including China, Myanmar, Russia, Australia (via Malaysia), Vietnam, and the United States. Neo is actively involved in projects in other geographies in order to ensure adequate access to distributed global rare earth supplies for Neo's separation and value add capabilities.

5.3.1 Hudson Resources Inc.

On August 22, 2022, Neo and Hudson Resources Inc. ("**Hudson**") entered into a binding agreement ("**Agreement**") whereby Neo would acquire from Hudson a mineral exploration license ("**License**") covering a portion of the Sarfartoq Carbonatite Complex in southwest Greenland (the "**Project**"). The Project hosts a mineral deposit that is enriched in neodymium and praseodymium, two essential elements for rare earth permanent magnets used in electric vehicles, wind turbines, and high-efficiency electric motors and pumps that help reduce greenhouse gas emissions. Neo subsequently assigned its rights under the Agreement to Neo North Star Resources Inc. ("**NNSR**"), a special-purpose entity ("**SPE**") established to fund the purchase of the License and the exploration of the Project. NNSR is majority-owned by Neo with significant investment from Weston Energy III LLC, a portfolio company of Yorktown Partners LLC. NNSR intends to raise additional capital as needed to conduct its planned exploration program.

On April 24, 2023, NNSR completed the purchase of the License from Hudson for the agreed-upon total compensation of $3.5 million, of which $0.25 million was previously paid by Neo in 2022 upon signing of the Agreement, which will be reimbursed by NNSR. The License has been transferred to NNSR on May 3, 2023, upon endorsement of a license addendum by the government of Greenland.

Pursuant to the Agreement, Hudson may, under certain circumstances, be entitled to additional compensation in the form of equity interests in NNSR or a share of future sale proceeds.

NNSR has also entered into an offtake agreement ("**Offtake**") with Neo's affiliate, NPM Silmet OÜ ("Silmet") that gives Silmet rights to purchase up to 60% of the ore or mineral concentrate produced from the Project once it is in operation. The Offtake enables Neo to secure access to a long-term supply of rare earth materials and to further diversify its global rare earth supply chain. The materials procured under the Offtake will be used as feedstock for Silmet's rare earth separation facility in Estonia, which is the only industrial-scale, commercially operating rare earth separation facility in the Western hemisphere.

5.3.2 Australian Rare Earths Limited

On October 14, 2022, Neo entered into a non-binding memorandum of understanding with Australian Rare Earths Ltd. (AR3.AX) ("**AR3**") that provides for the parties to enter into a joint development agreement pursuant to which Neo will provide technical and material testing support to AR3 and collaborate on future rare earth projects, including separation capabilities, in Australia. In return, Neo would receive options on AR3 stock, and rights to purchase 50% of the initial production from AR3's Koppamurra rare earth project in Australia. Neo's participation is in the early phases and no capital has been spent on this project other than the initial investment in AR3 of $0.8 million made on June 30, 2021.

5.4 Initiatives to Protect Margins Against Movements in Rare Earth Pricing

Both Magnequench and C&O have made strategic efforts to reduce the quarterly fluctuations in reported results related to rare earth price movements. These include encouraging more contracts to have pass-through provisions, matching more contract durations to overall inventory turns and reducing overall inventory turns. All three strategic efforts are on-going.

Rare earth prices, particularly the magnetic elements, have historically been quite volatile. As an example, in recent history, the market index price (ex China) of Neodymium ("**Nd**"), a key magnetic element, was approx. $42 per kilogram ("**/kg**") in the first quarter of 2020, $93/kg in the first quarter of 2021, $174/kg in the first quarter of 2022 and $105/kg in the first quarter of 2023, noting that at the end of March 2023, prices were closer to $80/kg.

Neo has long strategically positioned itself as a value-add producer that drives margins from converting the input commodity and creating a higher value finished product. Neo is not a mining company and is not exposed to fixed cost environments for the majority of its input costs. Rather, the largest of Neo's input costs, the commodity itself, tends to fluctuate in relationship to the finished good market prices.

For Magnequench, the largest two input costs in production are the commodity costs of Nd Oxide and Praseodymium ("**Pr**") Oxide. With these inputs tied to market indexes, Magnequench contractually passes through any changes in the commodity cost to its end customers. Approximately 85%-90% of Magnequench's magnetic powder sales contracts contain pass-through provisions, with the vast majority of contracts updating prices either monthly or quarterly. Thus, in the longer term, Magnequench's exposure to changes in commodity prices is low and Magnequench focuses on earning a margin for its value-add conversion activities. However, in short term periods, such as a fiscal quarter, there may be impacts from changes in commodity prices on Magnequench's results. This is related to the duration of inventory turnover relative to the timing of the change in these pass-through commodity prices. Accordingly, while quarterly margins will vary with rare earth prices, Magnequench's long term margins are tied more closely to the value-add nature of Magnequench's activities.

For C&O rare earth separation business, the largest input cost is rare earth carbonate. The rare earth carbonate contains many different rare earth elements in specified compositions (per feed source). Although the purchase cost of the rare earth carbonate is not a specified formula, the purchase cost is highly correlated to the market index price of the key rare earth magnetic elements. C&O's primary strategy is to convert these rare earth raw materials into highly engineered value-added products including proprietary formulations and specialty purity products. These margins are readily apparent when C&O purchases its raw materials. However, in short term periods, such as a fiscal quarter, there may be impacts from changes in commodity prices that impact reported results as the cost of that material is reported as the historical inventoried cost. This is related to the duration of inventory turnover relative to selling the majority of the compounds at current spot market index prices. Accordingly, while quarterly margins will vary with rare earth prices, the C&O separation long term margins tend to be more stable than the short-term volatility that appears in the C&O quarterly results. This is particularly true when C&O records provisions for inventories in its accounting records, as it has in the third quarter of 2022 and the first quarter of 2023, reflecting larger changes in the market index price in those periods.

C&O's Material Margin (the difference between the basket selling price of commodity finished goods compared to the basket cost the rare earth carbonate feedstock measured in the same period) has generally risen over time as rare earth prices have increased, independent of individual quarterly results (which vary according to inventoried costs).

The emissions auto-catalyst business of C&O and the Rare Metals business are not as subject to the same volatility in rare earth prices due to the different composition and nature of the finished goods and input costs.

6. Consolidated Results of Operations

Comparison of the three months ended March 31, 2023 to the three months ended March 31, 2022

($000s)	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Revenue	135,530	166,282
Costs of sales		
Costs excluding depreciation and amortization	116,621	114,316
Depreciation and amortization	2,168	2,378
Gross profit	**16,741**	**49,588**
Expenses		
Selling, general and administrative	14,871	14,252
Share-based compensation	850	181
Depreciation and amortization	1,766	1,896
Research and development	3,251	4,574
	20,738	20,903
Operating (loss) income	**(3,997)**	**28,685**
Other expense	(478)	(433)
Finance cost, net	(4,012)	(414)
Foreign exchange loss	(580)	(411)
(Loss) income from operations before income taxes and equity income of associates	**(9,067)**	**27,427**
Income tax expense	(1,610)	(5,995)
(Loss) income from operations before equity income of associates	**(10,677)**	**21,432**
Equity (loss) income of associates (net of income tax)	(23)	1,269
Net (loss) income	**$ (10,700)**	**$ 22,701**
Attributable to:		
Equity holders of Neo	(10,454)	$ 22,350
Non-controlling interest	(246)	351
	$ (10,700)	**$ 22,701**
(Loss) earnings per share attributable to equity holders of Neo:		
Basic	$ (0.23)	$ 0.55
Diluted	$ (0.23)	$ 0.54

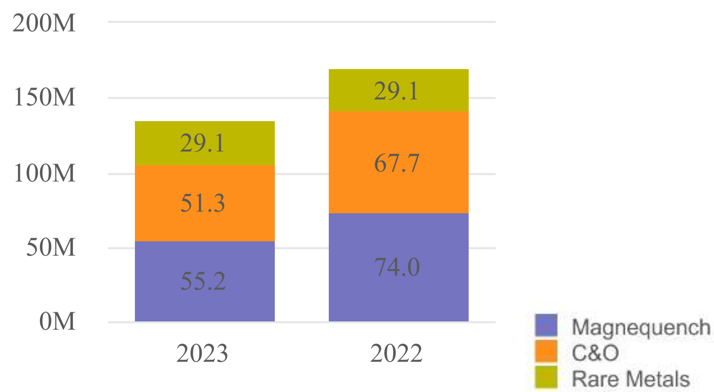
Revenue

Neo's consolidated revenue for the three months ended March 31, 2023 was $135.5 million compared to $166.3 million for the three months ended March 31, 2022; a decrease of $30.8 million or 18.5%.

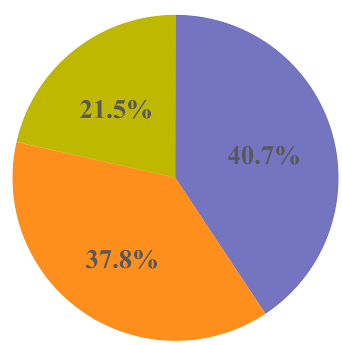
($000s)	Three Months Ended March 31,						
	2023		**2022**		**Change**		**%**
Magnequench	$	55,165	$	74,015	$	(18,850)	(25.5%)
C&O		51,289		67,662		(16,373)	(24.2%)
Rare Metals		29,076		29,062		14	—%
Eliminations		—		(4,457)		4,457	(100.0%)
Consolidated Revenue	**$**	**135,530**	**$**	**166,282**	**$**	**(30,752)**	(18.5%)

Revenue by segment before inter-segment eliminations (1)

For the Three Months Ended March 31, 2023 and 2022



For the Three Months Ended March 31, 2023



__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, 2023 was nil compared to $4.5 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 prior period. 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, 2023 was $116.6 million or 86.0% of revenue, compared to $114.3 million or 68.7% of revenue in the same period of the prior year. Costs of sales, excluding depreciation and amortization, as a percentage of revenue increased mainly due to decreased rare earth commodity prices, higher cost inventory on hand relative to current selling price (including a $5.6 million provision for inventories), and product mix within the business segments.

Consolidated depreciation and amortization in costs of sales were $2.2 million for the three months ended March 31, 2023 compared to $2.4 million in the prior year. Consolidated depreciation and amortization in costs of sales in the three months ended March 31, 2023 decreased due to lower carrying value of property, plant and equipment as some assets were fully depreciated. This was partly offset by the accelerated amortization of certain property, plant and equipment in one of Neo's 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, 2023, SG&A expense was $14.9 million comparable to $14.3 million in the corresponding period last year.

Share-based compensation

For the three months ended March 31, 2023, share-based compensation was $0.9 million compared to $0.2 million for the three months ended March 31, 2022. The higher expense in 2023 is mainly due to the increased service period expense for awards granted in March 2022 and September 2021, partially offset by lower share price for Neo's common shares which decreased the fair value of the cash-settled awards.

Depreciation and amortization

Depreciation and amortization unrelated to production for the three months ended March 31, 2023 was $1.8 million, comparable to $1.9 million in the three months ended March 31, 2022.

R&D

For the three months ended March 31, 2023, R&D expense was $3.3 million, compared to $4.6 million in the corresponding period of 2022. 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 $0.5 million for the three months ended March 31, 2023, compared to $0.4 million for the three months ended March 31, 2022. Included in other expense are charges for estimated damage claims related to legal proceedings and estimated costs for the disposal of existing naturally occurring radioactive materials ("**NORM**") as well as NORM generated during the quarter.

Finance cost, net

Finance cost, net, for the three months ended March 31, 2023 was $4.0 million compared to $0.4 million in the same period last year. Neo's finance cost, net, in both periods were primarily related to the change in fair value of equity securities and of the derivative liability of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss. The equity securities and derivative liability are re-measured at each reporting period with the change in fair value recorded to finance cost, net.

As at March 31, 2023, Neo had total outstanding bank loans of $30.7 million and approximately $3.2 million in bank advances and other short-term loans, the interests accrued of which were charged to finance cost, net.

Income tax expense

For the three months ended March 31, 2023, Neo had an income tax expense of $1.6 million on loss from operations before taxes of $9.1 million. 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.

Neo's effective income tax rates were (17.8)% for the three months ended March 31, 2023 and 21.9% for the three months ended March 31, 2022. The negative effective tax rate for the three months ended March 31, 2023 is due primarily to the mix and volume of operating income in jurisdictions with different effective tax rates and jurisdictions for which no deferred tax assets are recognized.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of $5.0 million for the three months ended March 31, 2023, compared to $6.8 million for the three months ended March 31, 2022. 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.

As part of planned upgrade, expansion, and relocation of Neo's environmental emissions catalyst production facility, Neo Jia Hua Advanced Materials (Zibo) Co., Ltd. ("**NAMCO**"), a subsidiary of Neo, continues to work on the engineering design associated with this relocation and the construction of the facility at the new location, with a total of $12.2 million spent since inception (RMB 83.2 million) and $1.8 million (RMB 12.2 million) spent in the three months ended March 31, 2023.

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 five expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1("**846**"), European patent #0605274 ("**274**"), European patent #0955267 B1 ("**267**"), and European patent #1435338 B1 ("**338**"). Neo C&O (Europe) filed an appeal in the 846 infringement action, which is still pending. Neo C&O (Europe) filed an appeal in the 338 infringement action but the Higher Regional Court of Karlsruhe affirmed the judgment of infringement. Neo C&O (Europe) subsequently filed for leave to appeal the 338 judgment of infringement to the German Federal

Supreme Court and that application is still pending. The judgments of infringement with respect to 984, 274 and 267, are final. Neo C&O (Europe) was ordered to provide information related to the calculation of damages, but as of yet, there has been no determination of damages in any of the German infringement lawsuits.

Neo C&O (Europe) challenged the validity of patents 984, 846, 274, 267 and 338 before the German Federal Patent Court. Following litigation before the German Federal Patent Court, and subsequent appeals to the German Supreme Court, patents 984, 846, 274, 267 and 338 were upheld subject to restrictions in scope. 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**"). The German Federal Patent Court upheld the validity of 018 in restricted form. Both Rhodia and Neo have appealed this ruling and the appeals are still pending. Neo's lawsuit challenging the validity of 682 is pending in the German Federal Patent Court.

Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed four unexpired patents: 018, 682, European Patent #3009403 B1 ("**403**") 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 403 infringement action is pending before the Düsseldorf Regional Court and a trial date has not yet been set. The 907 action was initiated at the beginning of July 2020, but Rhodia dismissed the 907 action in March 2021.

In April 2018, the United Kingdom ("**UK**") High Court of Justice determined that certain of Neo C&O (Europe)'s products infringed the equivalent UK patent 338. Neo C&O (Europe) appealed the trial court judgment of infringement but in October of 2019 the judgment of infringement was affirmed. In 2020 Neo C&O (Europe) reached a confidential settlement with the plaintiffs, Rhodia Operations S.A.S. and Anan Kasai Co. Ltd., for some of the damage claims. A trial on the plaintiffs' remaining claims for damages took place in January and February 2022. On March 29, 2022, the Court ruled that the plaintiffs were not entitled to any damages for the remaining claims. The plaintiffs' appeal of the trial court judgment was dismissed in January 2023. The plaintiffs have applied for permission to appeal to the Supreme Court and the application is still 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 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 May of 2021, DKKK and Rhodia Operations withdrew their suit alleging infringement of Claim 4. In December 2020, the Beijing IP Court upheld the ruling of the PRB invalidating claims 1 through 3 of patent ZL 200710146613.6. In September 2022, the Supreme People's Court upheld the ruling of the PRB.

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. 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 403. This case has not yet been set for trial. Neo C&O (Europe) has filed an action before the European Patent Office seeking to revoke 403.

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

Patent Reference	Jurisdiction of Claim	Specified Damages by Claimant
European patent 0863846 B1	Germany	$8.7 million
European patent 0735984 B1	Germany	
European patent 0605274 B1	Germany	
Chinese patent ZL 96196505.3	China	$6.6 million
European Patent EP 3009403	Germany	Not specified
European Patent EP 3009403	Estonia	$0.1 million
European & UK patents 1435338 B1	Germany	$41.4 million (€38.0 million)
European & UK patents 1435338 B1	UK	Not specified
European patent 0955267	Germany	$0.3 million (€0.3 million)
European patent 1527018	Germany	$0.7 million
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.

7. 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 (Loss) Income to EBITDA, Adjusted EBITDA and Free Cash Flow:

($000s, except volume)	Three Months Ended March 31,		Change	%
	2023	**2022**		
Net (loss) income	**$ (10,700)**	**$ 22,701**	**$ (33,401)**	(147.1%)
Add back (deduct):				
Finance cost, net	4,012	414	3,598	
Income tax expense	1,610	5,995	(4,385)	
Depreciation and amortization included in costs of sales	2,168	2,378	(210)	
Depreciation and amortization included in operating expenses	1,766	1,896	(130)	
EBITDA	**(1,144)**	**33,384**	**(34,528)**	(103.4%)
Adjustments to EBITDA:				
Other expense (1)	478	433	45	
Foreign exchange loss (2)	580	411	169	
Equity loss (income) of associates	23	(1,269)	1,292	
Share-based compensation (3)	850	181	669	
Other recoveries (4)	—	(22)	22	
Adjusted EBITDA	**$ 787**	**$ 33,118**	**$ (32,331)**	(97.6%)
Adjusted EBITDA Margins	*0.6%*	*19.9%*		
Less:				
Capital expenditures	$ 5,016	$ 6,782	$ (1,766)	(26.0%)
Free Cash Flow	**$ (4,229)**	**$ 26,336**	**$ (30,565)**	(116.1%)
Free Cash Flow Conversion (5)	(537.4%)	79.5%		
Revenue	$ 135,530	$ 166,282	$ (30,752)	(18.5%)
Sales volume (tonnes)	2,934	3,510	(576)	(16.4%)

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. Neo has removed these charges to provide comparability with historic periods.

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

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

($000s)	Three Months Ended March 31,	
	2023	**2022**
Net (loss) income	**$ (10,700)**	**$ 22,701**
Adjustments to net (loss) income:		
Foreign exchange loss (1)	580	411
Share-based compensation (2)	850	181
Other recoveries (3)	—	(22)
Other items included in other expense (4)	407	547
Tax impact of the above items	(118)	(353)
Adjusted net (loss) income	**$ (8,981)**	**$ 23,465**
Attributable to:		
Equity holders of Neo	$ (8,735)	$ 23,114
Non-controlling interest	$ (246)	$ 351
Weighted average number of common shares outstanding:		
Basic	45,196,921	40,681,191
Diluted	45,196,921	41,149,323
Adjusted (loss) earnings per share attributable to equity holders of Neo:		
Basic	$ (0.19)	$ 0.57
Diluted	$ (0.19)	$ 0.56

__**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. 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.

8. 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). Discussion of the reportable segments can be found in the Consolidated Highlights.

8.1 Magnequench

($000s, except volume)	Three Months Ended March 31, 2023	2022	Change	%
Operating income	**$ 955**	**$ 10,236**	**$ (9,281)**	(90.7%)
Net income	**$ 1,043**	**$ 8,749**	**$ (7,706)**	(88.1%)
Add back (deduct):				
Finance (income) cost, net	(95)	18	(113)	
Income tax expense	121	2,394	(2,273)	
Depreciation and amortization included in costs of sales	828	907	(79)	
Depreciation and amortization included in operating expenses	1,330	1,479	(149)	
EBITDA	**3,227**	**13,547**	**(10,320)**	(76.2%)
Other expense (income) [1]	150	(113)	263	
Foreign exchange (gain) loss [2]	(288)	457	(745)	
Equity loss (income) of associates	23	(1,269)	1,292	
Share-based compensation [3]	144	156	(12)	
Adjusted EBITDA[I]	**$ 3,256**	**$ 12,778**	**$ (9,522)**	(74.5%)
Adjusted EBITDA Margins[II]	5.9%	17.3%		
Revenue	$ 55,165	$ 74,015	$ (18,850)	(25.5%)
Sales volume (tonnes)	987	1,305	(318)	(24.4%)

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.

8.2 Chemicals & Oxides

($000s, except volume)	Three Months Ended March 31, 2023	2022	Change	%
Operating (loss) income	**$ (6,126)**	**$ 18,477**	**$ (24,603)**	(133.2%)
Net (loss) income	**$ (7,245)**	**$ 15,230**	**$ (22,475)**	(147.6%)
Add back (deduct):				
Finance cost, net	631	89	542	
Income tax (benefit) expense	(318)	2,388	(2,706)	
Depreciation and amortization included in costs of sales	1,126	979	147	
Depreciation and amortization included in operating expenses	283	282	1	
EBITDA	**(5,523)**	**18,968**	**(24,491)**	(129.1%)
Other expense (1)	358	513	(155)	
Foreign exchange loss (2)	448	257	191	
Share-based compensation (3)	155	172	(17)	
Adjusted EBITDA(I)	**$ (4,562)**	**$ 19,910**	**$ (24,472)**	(122.9%)
Adjusted EBITDA Margins(II)	(8.9%)	29.4%		
Revenue	$ 51,289	$ 67,662	$ (16,373)	(24.2%)
Sales volume (tonnes)	1,849	2,099	(250)	(11.9%)

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.

8.3 Rare Metals

($000s, except volume)	Three Months Ended March 31, 2023	2022	Change	%
Operating income	**$ 5,832**	**$ 3,723**	**$ 2,109**	57%
Net (loss) income	**$ (444)**	**$ 2,692**	**$ (3,136)**	(116%)
Add back (deduct):				
Finance cost, net	3,563	85	3,478	
Income tax expense	1,806	1,177	629	
Depreciation and amortization included in costs of sales	214	492	(278)	
Depreciation and amortization included in operating expenses	68	66	2	
EBITDA	**5,207**	**4,512**	**695**	15%
Other (income) expense (1)	(30)	33	(63)	
Foreign exchange loss (gain) (2)	936	(263)	1,199	
Share-based compensation (3)	51	59	(8)	
Adjusted EBITDA(I)	**$ 6,164**	**$ 4,341**	**$ 1,823**	42%
Adjusted EBITDA Margins(II)	21.2%	14.9%		
Revenue	$ 29,076	$ 29,062	$ 14	—%
Sales volume (tonnes)	98	137	(39)	(28.5%)

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.

9. Summary of Consolidated Quarterly Results

($000s, except for earnings per share information)	2023	2022				2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**$135,530**	**$159,168**	**$146,627**	**$168,221**	**$166,282**	**$153,414**	**$119,841**	**$135,141**
Net (loss) income attributable to equity holders of Neo	**(10,454)**	**(7,291)**	**(3,719)**	**14,607**	**22,350**	**6,735**	**8,036**	**12,960**
Basic EPS	(0.23)	(0.16)	(0.09)	0.36	0.55	0.17	0.21	0.34
Diluted EPS	(0.23)	(0.16)	(0.09)	0.36	0.54	0.17	0.21	0.34
Operating (loss) income	**(3,997)**	**6,727**	**2,239**	**20,963**	**28,685**	**12,726**	**12,558**	**18,195**
Net (loss) income	**(10,700)**	**(7,162)**	**(3,812)**	**14,691**	**22,701**	**7,263**	**8,136**	**13,027**
Add back (deduct):								
Finance cost, net	4,012	11,116	1,437	2,292	414	1,523	747	1,457
Income tax expense (benefit)	1,610	2,022	3,775	6,001	5,995	(702)	3,670	3,479
Depreciation and amortization included in Costs of Sales	2,168	2,361	2,279	2,388	2,378	2,405	1,980	1,912
Depreciation and amortization included in operating expenses	1,766	1,784	1,781	1,853	1,896	1,891	1,908	1,935
EBITDA	**(1,144)**	**10,121**	**5,460**	**27,225**	**33,384**	**12,380**	**16,441**	**21,810**
Add back:								
Other expense (income) (1)	478	492	448	855	433	4,351	(462)	(213)
Foreign exchange loss (gain)(2)	580	(476)	723	(959)	411	2,544	755	788
Equity loss (income) of associates	23	735	(332)	(1,917)	(1,269)	(2,253)	(288)	(343)
Share and value-based compensation (3)	850	610	735	957	181	1,765	1,198	(29)
Impairment of assets (4)	—	938	—	295	—	121	—	—
Other (recoveries) costs (5)	—	—	—	—	(22)	744	6	164
Adjusted EBITDA(I)	**$ 787**	**$12,420**	**$ 7,034**	**$26,456**	**$33,118**	**$19,652**	**$17,650**	**$22,177**
Adjusted EBITDA Margins(II)	*0.6%*	*7.8%*	*4.8%*	*15.7%*	*19.9%*	*12.8%*	*14.7%*	*16.4%*

Notes:

(1) Represents other expenses resulting from non-operational related activities, including provisions for estimated damages for outstanding legal claims related to historic volumes, 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-based compensation expense in respect of the Plan and the LTIP.

(4) Represents impairment in property, plant and equipment, long-term asset and prepayment.

(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.

10. Liquidity and Capital Resources

Three months ended March 31, 2023 compared to three months ended March 31, 2022:

	Three Months Ended March 31,	
($000s)	**2023**	**2022**
Cash flow:		
Cash used in operating activities	$ 18,930	$ (30,024)
Cash used in investing activities	(3,512)	(6,782)
Cash provided by (used in) financing activities	(18,188)	8,836

Financial position - as at	**March 31, 2023**	**December 31, 2022**
Cash and cash equivalents	$ 145,742	$ 147,491
Restricted cash	1,192	1,179
Property, plant and equipment	78,162	75,767
Total assets	644,830	676,460
Bank advances and other short-term debt	3,222	17,288
Current portion of long-term debt	763	747
Long-term debt	29,902	29,885

As of March 31, 2023, Neo had cash and cash equivalents of $145.7 million plus restricted cash of $1.2 million, compared to $147.5 million plus $1.2 million as at December 31, 2022. For the three months ended March 31, 2023, Neo paid $3.4 million in dividends to its shareholders. 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, 2022 were the following:

Inflows

- $0.6 million from operations before net change in working capital, income taxes paid and net interest received;
- $23.8 million net reduction in working capital.

Outflows

- $3.4 million of dividends paid to shareholders;
- $0.7 million of lease payments;
- $3.5 million of other capital spending;
- $5.3 million of income taxes paid; and
- $14.1 million repayment of bank advances and other short-term debts;

Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities was $18.9 million during the three months ended March 31, 2023, compared to net cash used in operating activities of $30.0 million for the three months ended March 31, 2022.

The $23.8 million net change in working capital for the three months ended March 31, 2023, was primarily attributable to the decrease in accounts receivable, lower inventory driven by declining rare earth prices net of C&O holding higher level of finished goods in preparation for the upgrade, expansion and relocation of its environmental emissions catalyst production facility. These decreases were partially offset by a decrease in accounts payable and other accrued charges.

Cash Used in Investing Activities

For the three months ended March 31, 2023, net cash used in investing activities was $3.5 million, compared to $6.8 million in the three months ended March 31, 2022. The cash used in investing activities was primarily related to capital projects performed at the NAMCO, Tianjin and Silmet facilities. These capital projects included a combination of maintenance capital to assist with the continuing development and operations of Neo, growth capital to assist in adding new capacity or new products, and strategic capital tied to longer-term strategic planning initiatives.

Cash (Used in) Provided by Financing Activities

Net cash used in financing activities during the three months ended March 31, 2023 was $18.2 million, compared to net cash provided by financing activities of $8.8 million in 2022. In the three months ended March 31, 2023, Neo repaid $14.1 million of its bank advances and other short-term debt, distributed $3.4 million in dividends to its shareholders, and spent $0.7 million in lease payments. 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.

($000s)

Cash and cash equivalents by Country as at	**March 31, 2023**	**December 31, 2022**
China (including Hong Kong)	$ 51,907	$ 55,526
Estonia	5,343	5,709
United States	7,682	4,524
Canada	35,541	47,440
Japan	3,378	1,238
United Kingdom	10,688	6,937
Germany	8,273	10,216
Singapore	12,380	6,867
Barbados	469	721
Thailand	9,266	7,444
Cayman Islands	26	28
Other	789	841
Total cash and cash equivalents	**$ 145,742**	**$ 147,491**

Approximately $11.4 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.

11. 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	$ 3,222	$ —	$ —	$ —	3,222
Accounts payable and other accrued charges	57,765	—	—	—	57,765
Derivative liability (1)	31,990	—	—	—	31,990
Estonia debt facility (2)	763	1,527	4,580	—	6,870
EDC credit facility (3)	—	5,000	20,000	—	25,000
Provisions (4)	1,347	24,387	—	—	25,734
Lease obligations (5)	1,394	1,478	44	22	2,938
Other liabilities	599	1,110	80	253	2,042
Total	**$ 97,080**	**$ 33,502**	**$ 24,704**	**$ 275**	**$ 155,561**

Notes:

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

(2) Represents $6.9 million (€6.3 million) Estonia debt facility with OP Corporate Bank plc Eesti filiaal.

(3) Represents the first tranche of the Export Development Canada credit facility term loan in the amount of $25.0 million.

(4) Represents management's best estimate of the costs to be incurred by Neo for the disposal of the hazardous NORM currently being stored at Jiangyin Jiahua Advanced Material Resources Co., Ltd. ("**JAMR**") facility and an estimated damages provision related to legal proceedings (see "*Other Expenditures and Legal Contingencies*").

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

As at March 31, 2023, Neo had $145.7 million of cash and cash equivalents and approximately $1.2 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.

12. Subsequent Events

12.1 Dividends payable to equity holders of Neo

On May 10, 2023, the Board of Directors declared a quarterly dividend of Cdn $0.10 per common share payable in cash on June 29, 2023, to common shareholders of record at the close of business on June 20, 2023.

12.2 Acquisition of SG Technologies Group Limited ("SGTec")

On April 18, 2023, Neo announced that it has agreed to acquire 90% of the outstanding share capital of SG Technologies Group Limited ("**SGTec**"), one of Europe's leading advanced, specialty manufacturers of rare-earth-based and other high-performance magnets for industrial and commercial markets. The acquisition was completed on April 19, 2023.

To complete the acquisition, Neo made an initial cash payment of 11.6 million Great British Pounds ("**GBP**") ($14.4 million). In addition, Neo is also contingently required to make a future cash payment based on SGTec's financial performance during its fiscal years ending March 31, 2024, March 31, 2025 and March 31, 2026. The amount of the payment will be between nil and a maximum of 5.4 million GBP, and will be settled in 2026.

The remaining 10% of SGTec will continue to be owned by the members of SGTec's senior management team.

12.3 Hudson Resources Inc.

On April 24, 2023, NNSR, a subsidiary controlled by Neo, completed the purchase of the License from Hudson for the agreed-upon total compensation of $3.5 million, of which $0.25 million was previously paid by Neo in 2022 upon signing of the binding Agreement whereby Neo would acquire from Hudson a License covering a portion of the Sarfartoq Carbonatite Complex in southwest Greenland. The License will be transferred to NNSR upon endorsement of a license addendum by the government of Greenland.

Pursuant to the Agreement, Hudson may, under certain circumstances, be entitled to additional compensation in the form of equity interests in NNSR or a share of future sale proceeds.

Further commentary on the acquisition of SGTec and the completion of the purchase of License from Hudson are included in the discussion under the heading "*Update on Selected Strategic Initiatives*".

13. Off-Balance Sheet Arrangements

As of March 31, 2023, 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 28, 2023. Neo cautions readers that the actual results could differ materially from those estimates and assumptions.

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.

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

	Three Months Ended March 31,	
	2023	2022
Purchase of goods and services from associates:		
TMT	$ 1,717	$ 614
Keli	6,086	26,346
GQD	2,501	6,108
Sales of goods and services to associates:		
TMT	3,255	2,641
Keli	—	718

Transactions with joint venture partners

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**").

Transactions between Neo and its joint venture partners are summarized in the table below:

	Three Months Ended March 31,	
	2023	2022
Sale of goods to Toda	$ 1,349	$ 480
Purchase of goods from Qian Dong	2,792	1,640

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, 2023, sales to Atatsu were nominal. For the three months ended March 31, 2022, sales to Atatsu were $0.3 million.

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

	Three Months Ended March 31,	
	2023	**2022**
Sale of goods and services to related parties	$ 10,654	$ 4,092
Purchase of goods and services from related parties	13,096	34,708

	March 31, 2023	**December 31, 2022**
Trade balances:		
from related parties	$ 4,224	$ 2,374
due to related parties	(1,423)	(9,295)
Total	**$ 2,801**	**$ (6,921)**

Directors and Key Management Compensation

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

Neo's short-term compensation for key management personnel during the three months ended March 31, 2023 and 2022, was as follows:

	Three Months Ended March 31,	
	2023	**2022**
Directors	167	99
Key Executive Management	1,096	1,303
Total	**$ 1,263**	**$ 1,402**

Neo's share-based compensation expense for key management personnel during the three months ended March 31, 2023 and 2022, was as follows:

	Three Months Ended March 31,	
	2023	**2022**
Directors	(36)	(470)
Key Executive Management	691	452
Total	**$ 655**	**$ (18)**

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 statement of financial position as at March 31, 2023, are grouped into the fair value hierarchy as follows:

($000s)	**Level 1**	**Level 2**	**Level 3**
Financial Assets:			
Equity securities	$ 553	$ —	$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	$ —	$ —	$ 31,990

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.

There have been no transfers between levels for the period ended March 31, 2023.

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, 2023, 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, 2023, 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

17.1 Neo adopted the following accounting standards and amendments to accounting standards during the period ended March 31, 2023:

17.1.1 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. The amendment was adopted by Neo on January 1, 2023.
The amendment did not have a material impact on the consolidated financial statements.

17.1.2 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. The amendment was adopted by Neo on January 1, 2023.
The amendment did not have a material impact on the consolidated financial statements.

17.1.3 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. The amendment was adopted by Neo on January 1, 2023 and the amendment did not have a material impact on the consolidated financial statements.

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

17.2.1 Non-Current Liabilities with Covenants (Amendments to IAS 1)

In October 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1) to clarify how covenant with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments are effective for annual periods beginning on or after January 1, 2024. 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, 2023 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, 2023. 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, 2023, 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 28, 2023 and Neo's 2022 Annual Information Form ("**AIF**").

20. Outstanding Shares Data

Class of Equity Security	Numbers Outstanding as at March 31, 2023
Common Shares	45,196,921
Stock Options*	1,158,228
Restricted Share Units & Performance Stock Units	285,487

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

The number of common shares outstanding as at May 10, 2023 is 45,196,921.

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.