MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2023

Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following Management's Discussion and Analysis ("**MD&A**") for Neo Performance Materials Inc. ("**Neo**") should be read in conjunction with the MD&A and 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 August 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), geopolitical risk and other risks present in the jurisdictions in which Neo, its customers, its suppliers, and/or its logistics partners operate, and; expectations concerning any remediation efforts to Neo's design of its internal controls over financial reporting and disclosure controls and procedures. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or can state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. This information involves known and unknown risks and uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Neo believes the expectations reflected in such forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this discussion and analysis should not be unduly relied upon. For more information on Neo, investors should review Neo's continuous disclosure filings that are available under its profile at www.sedar.com.

The forward-looking information is only provided as of the date of this MD&A, August 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 1,840 employees and has a global platform that includes 10 manufacturing facilities located in China, the United States ("**U.S.**"), Germany, Canada, Estonia, the United Kingdom ("**UK**") 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 19, 2023, Neo, through its subsidiary in the UK, Neo Ventures Europe Limited ("**NVEL**"), completed its acquisition of 90% of the outstanding share capital of SG Technologies Group Limited and its wholly owned subsidiaries (collectively referred to as "**SGTec**"), one of Europe's leading advanced, specialty manufacturers of rare-earth-based and other high-performance magnets for industrial and commercial markets. The remaining 10% of SGTec will continue to be owned by the members of SGTec's senior management team. 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 June 30,			Six Months Ended June 30,		
	2023	**2022**	**2021**	**2023**	**2022**	**2021**
Revenue						
Magnequench	$ 49,329	$ 78,412	$ 67,888	$ 104,494	$ 152,426	$ 132,793
C&O	71,276	69,350	52,255	122,565	137,013	106,645
Rare Metals	49,825	25,892	20,083	78,901	54,954	36,799
Corporate / Eliminations	—	(5,433)	(5,085)	—	(9,890)	(10,241)
Consolidated Revenue	**$ 170,430**	**$ 168,221**	**$ 135,141**	**$ 305,960**	**$ 334,503**	**$ 265,996**
Operating Income (Loss)						
Magnequench	$ 1,077	$ 12,862	$ 12,585	$ 2,032	$ 23,098	$ 23,675
C&O	1,524	8,146	7,920	(4,602)	26,622	20,042
Rare Metals	16,686	4,264	1,836	22,518	7,987	2,094
Corporate / Eliminations	(5,612)	(4,309)	(4,146)	(10,270)	(8,059)	(11,208)
Consolidated Operating Income	**$ 13,675**	**$ 20,963**	**$ 18,195**	**$ 9,678**	**$ 49,648**	**$ 34,603**
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") (1)						
Magnequench	$ 5,274	$ 15,325	$ 14,937	$ 8,530	$ 28,102	$ 28,369
C&O	2,913	9,663	8,735	(1,649)	29,573	21,653
Rare Metals	16,950	5,174	2,462	23,114	9,515	3,365
Corporate / Eliminations	(5,589)	(3,706)	(3,957)	(9,660)	(7,617)	(8,774)
Consolidated Adjusted EBITDA	**$ 19,548**	**$ 26,456**	**$ 22,177**	**$ 20,335**	**$ 59,573**	**$ 44,613**
Net Income (Loss)	**$ 329**	**$ 14,691**	**$ 13,027**	**$ (10,371)**	**$ 37,392**	**$ 20,644**
Attributable to:						
Equity holders of Neo	310	14,607	12,960	(10,144)	36,957	20,406
Non-controlling interest	19	84	67	(227)	435	238
Earnings (loss) per share attributable to equity holders of Neo						
Basic	$ 0.01	$ 0.36	$ 0.34	$ (0.22)	$ 0.91	$ 0.54
Diluted	$ 0.01	$ 0.36	$ 0.34	$ (0.22)	$ 0.90	$ 0.54
Adjusted Net Income (Loss)(2)	**$ 2,465**	**$ 15,887**	**$ 14,092**	**$ (6,516)**	**$ 39,352**	**$ 29,186**
Attributable to:						
Equity holders of Neo	2,446	15,803	14,025	(6,289)	38,917	28,948
Non-controlling interest	19	84	67	(227)	435	238
Adjusted earnings (loss) per share attributable to equity holders of Neo (2):						
Basic	$ 0.05	$ 0.39	$ 0.37	$ (0.14)	$ 0.96	$ 0.77
Diluted	$ 0.05	$ 0.39	$ 0.37	$ (0.14)	$ 0.95	$ 0.76
Capital expenditures excluding business combination (3)	$ 6,820	$ 2,582	$ 2,521	$ 11,836	$ 9,364	$ 4,257
Cash taxes paid	$ 2,772	$ 3,046	$ 2,536	$ 8,033	$ 4,411	$ 3,788
Dividends paid to shareholders	$ 3,343	$ 3,155	$ 3,126	$ 6,722	$ 6,338	$ 6,211
Repurchase of common shares under Normal Course Issuer Bid	$ 1,202	$ —	$ —	$ 1,202	$ —	$ 37

	June 30,	December 31,	
	2023	**2022**	**2021**
Cash and cash equivalents	$ 126,915	$ 147,491	$ 89,037
Bank advances & other short-term debt	$ 8	$ 17,288	$ 6,502
Current portion & long-term debt	$ 26,609	$ 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 (Loss) Income and Adjusted Earnings per Share.
(3) Capital expenditures of $9.6 million and right-of-use assets of $2.2 million for six months ended June 30, 2023.

Highlights for the three and six months ended June 30, 2023

Consolidated Results

- For the three and six months ended June 30, 2023, revenues were $170.4 million and $306.0 million, compared to $168.2 million and $334.5 million in the same periods of 2022; an increase of $2.2 million or 1.3% compared to the three month period and a decrease of $28.5 million or 8.5% compared to the six month period. 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 been on a steady decline. Rare earth prices for magnetic elements declined between 15%-20% since March 2023 and 35%-45% since December 2022. Rare earth prices for magnetic elements are approximately 50% lower compared to the first half of 2022. As a result of this steep decline, margins were negatively impacted due to unfavorable lead-lag (the processing and selling of higher cost inventory purchased months earlier). 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*".

- For the three and six months ended June 30, 2023, operating income was $13.7 million and $9.7 million, a decrease of $7.3 million and $40.0 million, respectively, compared to the same periods of the prior year.

- Magnequench saw weaker volume across the majority of its applications due primarily to continued softness in Asia and customer destocking. C&O saw stronger sales for some of its higher value rare earth elements and stronger volumes in its environmental emissions catalyst business. However, the negative margins in rare earth separation (from processing material purchased three to five months ago) offset those improvements. Rare Metals continued to deliver record margin performance driven by continued strong demand and pricing for products; most notably, Hafnium, which has continued its upward pricing trend through the quarter.

- On April 19, 2023, Neo, completed its acquisition of 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 remaining 10% of SGTec will continue to be owned by the members of SGTec's senior management team. See further discussion on impact of the acquisition in section 5.2 under the heading "*Magnets Manufacturing Footprints in Europe*". The total purchase price consisted of cash consideration of 11.6 million Great British Pounds ("**GBP**") ($14.4 million) and contingent consideration estimated at 2.0 million GBP ($2.5 million) at the acquisition date.

- Adjusted EBITDA[I] for the three and six months ended June 30, 2023 was $19.5 million and $20.3 million, respectively, a decrease of $6.9 million and $39.2 million, respectively, compared to the same periods of the prior year. Similar to operating income, in the three and six months ended June 30, 2023, Adjusted EBITDA[I] was lower in C&O and Magnequench, partially offset by the strong performance in Rare Metals.

- 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, and with Neo’s extensive experience as a rare earth magnetics company operating both inside and outside of China, the company is well positioned to take advantage of these market trends.

Magnequench Segment

- For the three and six months ended June 30, 2023, revenues in the Magnequench segment were $49.3 million and $104.5 million, respectively, compared to $78.4 million and $152.4 million in the same periods of 2022; a decrease of $29.1 million and $47.9 million, respectively. Operating income for the three and six months ended June 30, 2023 was $1.1 million and $2.0 million, respectively, a decrease of $11.8 million and of $21.1 million, respectively, when compared to the three and six months ended June 30, 2022. For the three and six months ended June 30, 2023, Adjusted EBITDA[1] in the Magnequench segment was $5.3 million and $8.5 million compared to $15.3 million and $28.1 million in the three and six months ended June 30, 2022; a decrease of $10.1 million and $19.6 million, respectively.

- For the three and six months ended June 30, 2023, volumes in the Magnequench segment saw a decline with respect to the prior year period. The permanent magnet industry remains sluggish which has impacted volumes across all applications. This has impacted markets in China, Japan and Europe and has also contributed to the general price weakness of rare earth magnetic elements. In addition, with changing demand outlooks and excess inventory across supply chains, select customers have focused on destocking which has impacted Magnequench volumes in the short term. To address the economic impact of declining volumes in the short term, Magnequench conducted a rationalization of its work force and other cost savings activities in the first half of 2023.

- Margins per ton in the Magnequench segment were lower in the first half of 2023 compared to the prior year. The segment has made progress on its operational improvement efforts to deliver better inventory performance and sustainable reductions in processing costs. However, as rare earth magnetic prices continue to decline, Magnequench experienced a negative lead-lag impact in the first six months of 2023. 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 pricing is a key strategic focus of Magnequench and ensures that the business can continue to generate long-term sustainable and value-added margins.

- Over the last few years, Magnequench has focused on key macro growth trends that are yielding positive sales volume growth in areas such as compression magnets and electrified-automotive applications, including traction motors and pumps. In addition, the SGTec acquisition closed during the second quarter and has performed in line with expectations. With the acquisition of SGTec, Magnequench has added volume for high value, high-performance magnets which the business will continue to grow as a strategic part of the portfolio. Despite lower volumes across the industry in the current year, Magnequench continues to be well positioned to benefit in the growth of permanent magnets and offers a dual supply of permanent magnetic materials inside and outside of China.

Chemicals & Oxides ("C&O") Segment

- For the three and six months ended June 30, 2023, revenues in the C&O segment were $71.3 million and $122.6 million, respectively, compared to $69.4 million and $137.0 million in the same periods of 2022; an increase of $1.9 million and a decrease of $14.4 million, respectively. For the three and six months ended June 30, 2023, the C&O segment reported operating income of $1.5 million and an operating loss of $4.6 million, respectively, compared to an operating income of $8.1 million and $26.6 million in the same periods of 2022. Adjusted EBITDA[1] was $2.9 million and a loss of $1.6 million for the three and six months ended June 30, 2023; a decrease of $6.8 million and $31.2 million, respectively. The Adjusted EBITDA loss in the first three months of 2023 were related to lower rare earth prices in the period resulting in a provision for inventories charge in that period.

- In the three months ended June 30, 2023, the C&O volume and pricing dynamics were mixed with rare earth pricing for neodymium and praseodymium elements continuing to face pricing headwinds offset by strong performance in high purity dysprosium. The dysprosium volumes were related to the higher-value multi-layer ceramic capacitor ("**MLCC**") market as opposed to the standard grade dysprosium which goes into the magnetics market. C&O's environmental emissions catalyst business also showed strong volumes as China recovered from a slower first quarter of 2023.

- The 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). Rare earth feedstock being purchased in June 2023 was approximately 45%-65% lower than feedstock purchased a year earlier and 35%-45% lower than feedstock purchased in December 2022. As prices stabilize and material costs in sales mirror replacement costs, C&O expects positive margins from rare earth separation. C&O offers the only parallel supply chain to separate rare earths inside and outside of China.

- C&O's environmentally protective water treatment solutions business delivered its strongest quarterly volume since inception, as the business continues to grow its customer base and pipeline of opportunities.

Rare Metals Segment

- For the three and six months ended June 30, 2023, revenues in the Rare Metals segment were $49.8 million and $78.9 million, respectively, compared to $25.9 million and $55.0 million in the same periods of 2022; an increase of $23.9 million for both periods. For the three and six months ended June 30, 2023, the Rare Metals segment reported an operating income of $16.7 million and $22.5 million, respectively, compared to $4.3 million and $8.0 million in the same periods of 2022; an increase of $12.4 million and $14.5 million, respectively. For the three and six months ended June 30, 2023, Adjusted EBITDA(1) in the Rare Metals segment was $17.0 million and $23.1 million, compared to $5.2 million and $9.5 million in the same periods of 2022; an increase of $11.8 million and $13.6 million, respectively.

- Rare Metals continued its strong earnings trend in the first six months of 2023. In the three months ended June 30, 2023, the segment delivered record margin performance driven by strength in Hafnium pricing and demand. The upward trend in Hafnium prices which began in the fourth quarter of 2021 has continued in the second quarter of 2023 with an increase of over 30% during the three months ended June 30, 2023. 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.

- The improvement in the Rare Metals business in the first half of 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. 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 continuing to exhibit improved market demand. In July 2023, the Government of China announced export restrictions on gallium and germanium effective August 1, 2023. The Rare Metals segment is one of the only gallium recycling operations outside of China and presents an opportunity for companies to source high purity gallium outside of China. The segment continues to seek sourcing additional gallium waste streams to support global market growth.

Cash and Other Highlights for the six months ended June 30, 2023

- Neo continues to be in a strong financial position. As at June 30, 2023, Neo had $126.9 million in cash, $3.3 million in restricted cash, offset by a nominal amount in bank advances and other short-term debt, and $26.6 million in drawn credit facilities, net of transaction costs of $1.2 million, resulting in net cash of $103.6 million as at June 30, 2023. Neo repaid $17.3 million of its bank advances and other short-term debt, as well as $7.0 million of its debt facility in Estonia in the six months ended June 30, 2023. Neo also funded the $14.4 million (a portion of the proceeds is held in escrow) acquisition of SGTec on April 19, 2023 with cash on hand. Cash generation has been positively impacted in the six months ended June 30, 2023 as Neo drew down its higher-cost rare earth feedstock in inventory. Working capital decreased by $29.8 million in the six months ended June 30, 2023.

- Neo invested $9.6 million in capital expenditures (excluding the acquisition of SGTec's property, plant and equipment of $12.0 million from business combination) for the six months ended June 30, 2023, compared to $9.4 million for the six months ended June 30, 2022.

- For the six months ended June 30, 2023, Neo paid dividends to its shareholders of $6.7 million.

- On June 14, 2023, Neo announced that the TSX had accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**NCIB**") for up to 3,585,011 of its issued and outstanding common shares. For the three and six months ended June 30, 2023, Neo repurchased and cancelled 191,770 shares for $1.2 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**"), the 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 June 30, 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 and subcontracts processing of certain material from a facility in Ukraine. 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 continues to evolve and Neo cannot be certain on the extent of the conflict and how 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 June 30, 2023, Neo had spent approximately $13.4 million (RMB 97.3 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 June 30, 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 expects to receive a minority stake in the new joint venture in exchange for the value of the ZAMR assets transferred to the new venture. This 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 Rare Earth Magnet Plant 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 permanent 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 $20.3 million (€18.7 million) from the Government of Estonia under Europe's Just Transition Fund ("**JTF**") for eligible project costs of up to $106.6 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.

On June 28, 2023, Neo officially initiated the plant's construction which was memorialized with a groundbreaking event that included a wide range of attendees including government officials and potential customers. This was a critical milestone as Neo works towards launching the first rare earth magnet manufacturing facility in Europe.

Through to June 30, 2023, Neo has spent approximately $0.6 million in out-of-pocket costs on this endeavor and has allocated significant internal resources for its preparation and execution. Neo has capitalized approximately $1.3 million of expenditures associated with the establishment of the Sintered Magnet manufacturing capability in Europe for the six months ended June 30, 2023.

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

On April 19, 2023, Neo, through its subsidiary in the UK, NVEL, completed its acquisition of 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 remaining 10% of SGTec will continue to be owned by two members of the existing management team that are continuing at SGTec.

The purchase further expands Neo's rare earth processing and magnet manufacturing footprint in Europe in strategic alignment with Neo's plans to launch production in 2025 of permanent 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.

Neo made an initial cash payment of 11.6 million GBP ($14.4 million) upon completion of the acquisition, a portion of which is held in escrow to be released subject to certain terms and conditions. In addition, Neo is 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 made in 2026.

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 Neo North Star Resources Inc. ("NNSR")

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 NNSR, a special-purpose entity (“**SPE**”) established to fund the purchase of the License and the exploration of the Project. NNSR is jointly-owned by Neo (44%) and three other third-party investors.

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. 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 with an initial investment in AR3 securities of $0.8 million made on June 30, 2021.

5.3.3 Hastings Technology Metals

On June 12, 2023, Neo and Hastings Technology Metals signed a non-binding Heads of Agreement ("**Agreement**") for rare earth concentrate offtake and downstream collaboration. The Agreement outlined the framework for the parties to negotiate a binding commercial offtake agreement for the supply of rare earth concentrate from Stage 1 of the Yangibana Rare Earths Project. This supply would feed Neo's downstream processing facilities across Europe and Asia. The Agreement also provides for cooperation in the areas of evaluating joint downstream processing opportunities, technical, and commercial collaboration.

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 increasing 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 approximately $40 per kilogram ("**/kg**") in the second quarter of 2020, $80/kg in the second quarter of 2021, $143/kg in the second quarter of 2022, and $70/kg in the second quarter of 2023.

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 80% 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 and six months ended June 30, 2023 to the three and six months ended June 30, 2022

($000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Revenue	170,430	168,221	305,960	334,503
Costs of sales				
Costs excluding depreciation and amortization	132,589	121,796	249,210	236,112
Depreciation and amortization	2,368	2,388	4,536	4,766
Gross profit	**35,473**	**44,037**	**52,214**	**93,625**
Expenses				
Selling, general and administrative	16,111	14,262	30,982	28,515
Share-based compensation	(82)	957	768	1,138
Depreciation and amortization	1,814	1,853	3,580	3,748
Research and development	3,955	5,707	7,206	10,281
Impairment of assets	—	295	—	295
	21,798	23,074	42,536	43,977
Operating income	**13,675**	**20,963**	**9,678**	**49,648**
Other expense	(171)	(855)	(649)	(1,288)
Finance cost, net	(4,085)	(2,292)	(8,097)	(2,706)
Foreign exchange (loss) gain	(662)	959	(1,242)	548
Income (loss) from operations before income taxes and equity (loss) income of associates	**8,757**	**18,775**	**(310)**	**46,202**
Income tax expense	(5,988)	(6,001)	(7,598)	(11,996)
Income (loss) from operations before equity (loss) income of associates	**2,769**	**12,774**	**(7,908)**	**34,206**
Equity (loss) income of associates (net of income tax)	(2,440)	1,917	(2,463)	3,186
Net income (loss)	**$ 329**	**$ 14,691**	**$ (10,371)**	**$ 37,392**
Attributable to:				
Equity holders of Neo	310	$ 14,607	(10,144)	$ 36,957
Non-controlling interest	19	84	(227)	435
	$ 329	**$ 14,691**	**$ (10,371)**	**$ 37,392**
Earnings (loss) per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic	$ 0.01	$ 0.36	$ (0.22)	$ 0.91
Diluted	$ 0.01	$ 0.36	$ (0.22)	$ 0.90

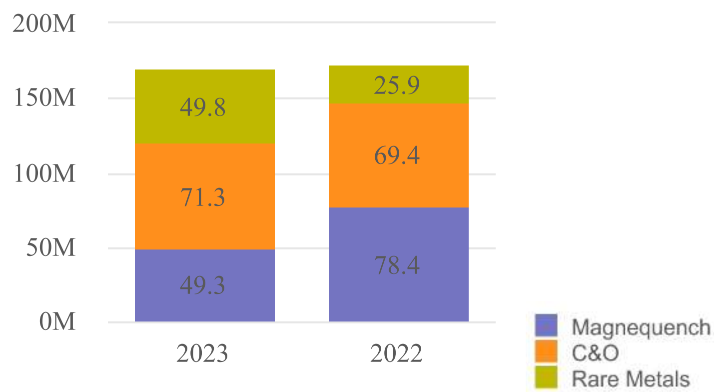
Revenue

Neo's consolidated revenue for the three and six months ended June 30, 2023, was $170.4 million and $306.0 million, respectively, compared to $168.2 million and $334.5 million for the three and six months ended June 30, 2022, respectively, an increase of $2.2 million or 1.3% and a decrease of $28.5 million or 8.5%, respectively.

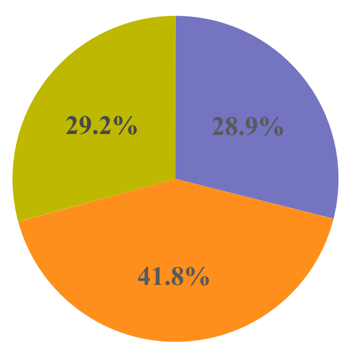
($000s)	**Three Months Ended June 30,**				**Six Months Ended June 30,**			
	2023	**2022**	**Change**	%	**2023**	**2022**	**Change**	%
Magnequench	$ 49,329	$ 78,412	$ (29,083)	(37.1%)	$ 104,494	$ 152,426	$ (47,932)	(31.4%)
C&O	71,276	69,350	1,926	2.8%	122,565	137,013	(14,448)	(10.5%)
Rare Metals	49,825	25,892	23,933	92.4%	78,901	54,954	23,947	43.6%
Eliminations	—	(5,433)	5,433	(100.0%)	—	(9,890)	9,890	(100.0%)
Consolidated Revenue	**$ 170,430**	**$ 168,221**	**$ 2,209**	1.3%	**$ 305,960**	**$ 334,503**	**$ (28,543)**	(8.5%)

Revenue by segment before inter-segment eliminations [(1)]

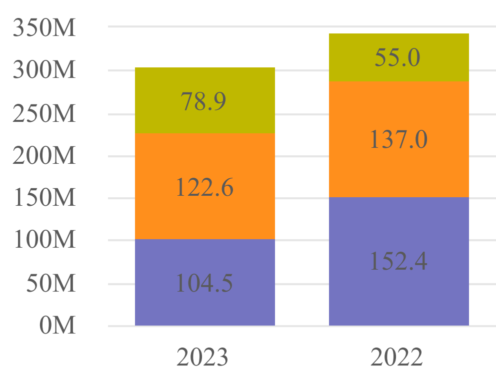
For the Three Months Ended June 30 2023 and 2022



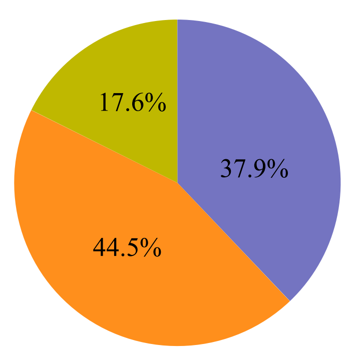
For the Three Months Ended June 30, 2023



For the Six Months Ended June 30, 2023 and 2022



For the Six Months Ended June 30, 2023



<u>**Notes:**</u>

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

Inter-segment revenue for the three and six months ended June 30, 2023 was nil for both periods, compared to $5.4 million and $9.9 million for the three and six months ended June 30, 2022, respectively. These have been eliminated on consolidation from C&O segment revenue as C&O sold product to Magnequench in the respective periods. The products sold to Magnequench are potential marketable third-party sales and are generally sold at fair market value.

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

Costs of sales

Consolidated costs of sales, excluding depreciation and amortization, for the three months ended June 30, 2023 was $132.6 million or 77.8% of revenue, compared to $121.8 million or 72.4% of revenue for the three months ended June 30, 2022. For the six months ended June 30, 2023, consolidated costs of sales, excluding depreciation and amortization, was $249.2 million or 81.5% of revenue, compared to $236.1 million or 70.6% 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 increased rare earth commodity prices, lower-cost inventory on hand relative to current selling price, and product mix within the business segments.

Consolidated depreciation and amortization in costs of sales were $2.4 million and $4.5 million for the three and six months ended June 30, 2023, respectively, compared to $2.4 million and $4.8 million for the three and six months ended June 30, 2022, respectively. Consolidated depreciation and amortization in costs of sales for the three and six months ended June 30, 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 and six months ended June 30, 2023, SG&A expense was $16.1 million and $31.0 million, respectively, comparable to $14.3 million and $28.5 million in the corresponding periods last year.

Included in the SG&A expense was acquisition-related costs incurred in the acquisition of SGTec of $1.2 million.

Share-based compensation

For the three and six months ended June 30, 2023, share-based compensation was a recovery of $0.1 million and an expense of $0.8 million, respectively, compared to an expense of $1.0 million and $1.1 million for the three and six months ended June 30, 2022. The lower expense in the three months ended June 30, 2023 is mainly due to the lower share price for Neo's common shares which decreased the fair value of the cash-settled awards, partially offset by increased service period expense for awards granted in March 2022 and September 2021.

Depreciation and amortization

Depreciation and amortization unrelated to production for the three and six months ended June 30, 2023 was $1.8 million and $3.6 million, respectively, comparable to $1.9 million and $3.7 million for the three and six months ended June 30, 2022.

R&D

For the three and six months ended June 30, 2023, R&D expense was $4.0 million and $7.2 million, respectively, compared to $5.7 million and $10.3 million in the corresponding periods in 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 expense

Neo reported other expense of $0.2 million and $0.6 million for the three and six months ended June 30, 2023, respectively, compared to $0.9 million and $1.3 million for the three and six months ended June 30, 2022, respectively. 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 and six months ended June 30, 2023 was $4.1 million and $8.1 million, respectively, compared to $2.3 million and $2.7 million for the three and six months ended June 30, 2022. Neo's finance cost, net, in both periods were primarily related to the change in fair value of equity securities, the derivative liability of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss. The equity securities and derivative liabilities are re-measured at each reporting period with the change in fair value recorded to finance cost, net.

As at June 30, 2023, Neo had nominal balance outstanding on Neo's bank advances and other short-term debt.

Income tax expense

For the three and six months ended June 30, 2023, Neo had an income tax expense of $6.0 million and $7.6 million, respectively, on income from operations before taxes of $8.8 million and on loss from operations before taxes of $0.3 million. For the three and six months ended June 30, 2022, Neo had an income tax expense of $6.0 million and $12.0 million, respectively, on income from operations before taxes of $18.8 million and $46.2 million.

Neo's effective income tax rates were 68.4% and (2,451.0)% for the three and six months ended June 30, 2023, respectively, and 32.0% and 26.0% for the three and six months ended June 30, 2022, respectively. The negative effective income tax rate for the six months ended June 30, 2023 is due to the small pre-tax loss for the period while the tax expense in Neo’s taxable jurisdictions significantly exceeds the tax benefits in jurisdictions with tax losses resulting in an overall tax expense. Significant items increasing the tax expense for the three and six months ended June 30, 2023 include the impact of unrecognized deferred tax assets, foreign exchange translation of non-monetary assets and expenses not deductible for tax purposes.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of $9.6 million (excluding the acquisition of SGTec's property, plant and equipment of $12.0 million from business combination) for the six months ended June 30, 2023, compared to $9.4 million for the six months ended June 30, 2022.

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 $13.4 million spent since inception (RMB 97.3 million). Of this, $3.7 million (RMB 26.4 million) was spent for the six months ended June 30, 2023. Additionally, $1.4 million in interest expense relating to the EDC facility was capitalized in Construction in Progress for the six months ended June 30, 2023.

For the six months ended June 30, 2023, Neo has also capitalized approximately $1.3 million on the establishment of the Sintered Magnet manufacturing capability in Europe.

The remainder of the capital expenditures were spent on 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 planning initiatives.

Legal contingencies

Neo operates in a high technology and advanced engineering product environment in which many patents have been issued over time. The subsidiaries of Neo are currently, and may in the future become, involved in legal proceedings alleging patent infringement. At present, Neo is defending against patent infringement legal proceedings filed in Germany, the UK, 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 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 Supreme Court subsequently denied the plaintiffs' application for permission to appeal, and therefore the damages judgment in favor of Neo C&O (Europe) is final.

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 EP 1435338 B1 (1)	Germany	$41.3 million (€38.0 million)
European patent 0955267 (1)	Germany	$0.3 million (€0.3 million)
European patent 1527018	Germany	$0.7 million
European patent 2007682	Germany	Not specified

Notes:

(1) During the second quarter of 2023 the Claimant filed new pleadings, which allege a different sum of damages than the amount shown in the table. However, the Claimant redacted the relevant portions of the pleading that specify the claimed amount of damages, and these portions of the pleading are subject to confidentiality restrictions which prevent public disclosure.

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 Income to EBITDA, Adjusted EBITDA and Free Cash Flow:

($000s, except volume)	Three Months Ended June 30,				Six Months Ended June 30,			
	2023	**2022**	**Change**	%	**2023**	**2022**	**Change**	%
Net income (loss)	**$ 329**	**$14,691**	**$ (14,362)**	(97.8%)	**$(10,371)**	**$37,392**	**$(47,763)**	(127.7%)
Add back (deduct):								
Finance cost, net	4,085	2,292	1,793		8,097	2,706	5,391	
Income tax expense	5,988	6,001	(13)		7,598	11,996	(4,398)	
Depreciation and amortization included in costs of sales	2,368	2,388	(20)		4,536	4,766	(230)	
Depreciation and amortization included in operating expenses	1,814	1,853	(39)		3,580	3,748	(168)	
EBITDA	**14,584**	**27,225**	**(12,641)**	(46.4%)	**13,440**	**60,608**	**(47,168)**	(77.8%)
Adjustments to EBITDA:								
Other expense (1)	171	855	(684)		649	1,288	(639)	
Foreign exchange loss (gain) (2)	662	(959)	1,621		1,242	(548)	1,790	
Equity loss (income) of associates	2,440	(1,917)	4,357		2,463	(3,186)	5,649	
Share-based compensation (3)	(82)	957	(1,039)		768	1,138	(370)	
Fair value adjustments to inventory acquired (4)	572	—	572		572	—		
Transaction costs (recoveries) (5)	1,201	—	1,201		1,201	(22)	1,223	
Impairment of assets	—	295	(295)		—	295	(295)	
Adjusted EBITDA(I)	**$19,548**	**$26,456**	**$ (6,908)**	(26.1%)	**$20,335**	**$59,573**	**$(39,238)**	(65.9%)
Adjusted EBITDA Margins(II)	*11.5%*	*15.7%*			*6.6%*	*17.8%*		
Less:								
Capital expenditures (6)	$ 6,820	$ 2,582	$ 4,238	164.1%	$11,836	$ 9,364	$ 2,472	26.4%
Free Cash Flow	**$12,728**	**$23,874**	**$ (11,146)**	(46.7%)	**$ 8,499**	**$50,209**	**$(41,710)**	(83.1%)
Free Cash Flow Conversion (7)	65.1%	90.2%			41.8%	84.3%		
Revenue	$170,430	$168,221	$ 2,209	1.3%	$305,960	$334,503	$(28,543)	(8.5%)
Sales volume (tonnes)	3,307	3,400	(93)	(2.7%)	6,241	6,911	(670)	(9.7%)

Notes:

(1) Represents other expenses (income) 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) In accordance with IFRS 3 *Business Combinations*, and on completion of the acquisition of SGTec, Neo recorded the acquisition of SGTec's inventory at fair value, which included a mark-up for profit of $1.3 million. A portion of this inventory was sold in the three months ended June 30, 2023 and had a $0.6 million impact on Net (loss) income.

(5) These represent primarily legal, professional advisory fees and other transaction costs for capital structuring associated with Neo or investments of Neo. Neo has removed these charges to provide comparability with historic periods. For the three and six months ended June 30, 2023, Neo incurred a total acquisition-related costs of $1.2 million in the acquisition of SGTec. These costs have been included in selling, general and administrative costs in the condensed consolidated statements of profit or loss.

(6) Represents capital expenditures of $9.6 million and right-of-use assets of $2.2 million. Excluding the additions of Property, Plant and Equipment of $12.0 million from the acquisition of SGTec.

(7) Calculated as Free Cash Flow divided by Adjusted EBITDA[I].

Reconciliation of Net Income to Adjusted Net Income:

($000s)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Net income (loss)	**$ 329**	**$ 14,691**	**$ (10,371)**	**$ 37,392**
Adjustments to net income (loss):				
Foreign exchange loss (gain) [1]	662	(959)	1,242	(548)
Impairment of assets	—	295	—	295
Share-based compensation [2]	(82)	957	768	1,138
Transaction costs (recoveries) [3]	1,201	—	1,201	(22)
Other items included in other expense [4]	212	947	619	1,494
Fair value adjustments to inventory acquired [5]	572	—	572	—
Tax impact of the above items	(429)	(44)	(547)	(397)
Adjusted net income (loss) [II]	**$ 2,465**	**$ 15,887**	**$ (6,516)**	**$ 39,352**
Attributable to:				
Equity holders of Neo	$ 2,446	$ 15,803	$ (6,289)	$ 38,917
Non-controlling interest	$ 19	$ 84	$ (227)	$ 435
Weighted average number of common shares outstanding:				
Basic	45,196,921	40,681,902	45,196,921	40,681,548
Diluted	45,621,275	41,001,055	45,196,921	41,089,719
Adjusted earnings (loss) per share attributable to equity holders of Neo:				
Basic	$ 0.05	$ 0.39	$ (0.14)	$ 0.96
Diluted	$ 0.05	$ 0.39	$ (0.14)	$ 0.95

Notes:

(1) Represents unrealized and realized foreign exchange loss (gain) 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 for capital structuring associated with Neo or investments of Neo. Neo has removed these charges to provide comparability with historic periods. For the three and six months ended June 30, 2023, Neo incurred a total acquisition-related costs of $1.2 million in the acquisition of SGTec. These costs have been included in selling, general and administrative costs in the condensed consolidated statements of profit or loss.

(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.

(5) In accordance with IFRS 3 *Business Combinations*, and on completion of the acquisition of SGTec, Neo recorded the acquisition of SGTec's inventory at fair value, which included a mark-up for profit of $1.3 million. A portion of this inventory was sold in the three months ended June 30, 2023 and had a $0.6 million impact on Net (loss) income.

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).

8.1 Magnequench

($000s, except volume)	**Three Months Ended June 30,**				**Six Months Ended June 30,**			
	2023	**2022**	**Change**	%	**2023**	**2022**	**Change**	%
Operating income	**$1,077**	**$12,862**	**$(11,785)**	(91.6%)	**$2,032**	**$23,098**	**$(21,066)**	(91.2%)
Net (loss) income	**$(1,027)**	**$10,317**	**$(11,344)**	(110.0%)	**$ 16**	**$19,066**	**$(19,050)**	(99.9%)
Add back (deduct):								
Finance (income) cost, net	(35)	(2)	(33)		(130)	16	(146)	
Income tax expense	45	3,312	(3,267)		166	5,706	(5,540)	
Depreciation and amortization included in costs of sales	1,010	874	136		1,838	1,781	57	
Depreciation and amortization included in operating expenses	1,419	1,422	(3)		2,749	2,900	(151)	
EBITDA	**1,412**	**15,923**	**(14,511)**	(91.1%)	**4,639**	**29,469**	**(24,830)**	(84.3%)
Other (income) expense (1)	(23)	(30)	7		127	(143)	270	
Foreign exchange (gain) loss (2)	(323)	1,182	(1,505)		(611)	1,639	(2,250)	
Equity income (loss) of associates	2,440	(1,917)	4,357		2,463	(3,186)	5,649	
Share-based compensation (3)	(5)	167	(172)		139	323	(184)	
Fair value adjustments to inventory acquired (4)	572	—	572		572	—	572	
Transaction costs (recoveries) (5)	1,201	—	1,201		1,201	—	1,201	
Adjusted EBITDA(I)	**$5,274**	**$15,325**	**$(10,051)**	(65.6%)	**$8,530**	**$28,102**	**$(19,572)**	(69.6%)
Adjusted EBITDA Margins(II)	10.7%	19.5%			8.2%	18.4%		
Revenue	$49,329	$78,412	$(29,083)	(37.1%)	$104,494	$152,426	$(47,932)	(31.4%)
Sales volume (tonnes)	1,037	1,218	(181)	(14.9%)	2,024	2,523	(499)	(19.8%)

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.

(4) In accordance with IFRS 3 *Business Combinations*, and on completion of the acquisition of SGTec, Neo recorded the acquisition of SGTec's inventory at fair value, which included a mark-up for profit of $1.3 million. A portion of this inventory was sold in the three months ended June 30, 2023 and had a $0.6 million impact on Net (loss) income.

(5) These represent primarily legal, professional advisory fees and other transaction costs for capital structuring associated with Neo or investments of Neo. Neo has removed these charges to provide comparability with historic periods. For the three and six months ended June 30, 2023, Neo incurred a total acquisition-related costs of $1.2 million in the acquisition of SGTec. These costs have been included in selling, general and administrative costs in the condensed consolidated statements of profit or loss.

8.2 Chemicals & Oxides

($000s, except volume)	**Three Months Ended June 30,**				**Six Months Ended June 30,**			
	2023	**2022**	**Change**	%	**2023**	**2022**	**Change**	%
Operating income (loss)	**$1,524**	**$8,146**	**$ (6,622)**	(81.3%)	**$(4,602)**	**$26,622**	**$(31,224)**	(117.3%)
Net income (loss)	**$1,055**	**$8,424**	**$ (7,369)**	(87.5%)	**$(6,190)**	**$23,654**	**$(29,844)**	(126.2%)
Add back (deduct):								
Finance (income) cost, net	(790)	205	(995)		(159)	293	(452)	
Income tax expense	951	798	153		633	3,186	(2,553)	
Depreciation and amortization included in costs of sales	1,144	1,043	101		2,270	2,021	249	
Depreciation and amortization included in operating expenses	258	285	(27)		541	567	(26)	
EBITDA	**2,618**	**10,755**	**(8,137)**	(75.7%)	**(2,905)**	**29,721**	**(32,626)**	(109.8%)
Other expense (1)	172	150	22		530	663	(133)	
Foreign exchange loss (gain) (2)	136	(1,432)	1,568		584	(1,174)	1,758	
Share-based compensation (3)	(13)	190	(203)		142	363	(221)	
Adjusted EBITDA(I)	**$2,913**	**$9,663**	**$ (6,750)**	(69.9%)	**$(1,649)**	**$29,573**	**$(31,222)**	(105.6%)
Adjusted EBITDA Margins(II)	4.1%	13.9%			(1.3%)	21.6%		
Revenue	$71,276	$69,350	$ 1,926	2.8%	$122,565	$137,013	$(14,448)	(10.5%)
Sales volume (tonnes)	2,188	2,095	93	4.4%	4,037	4,195	(158)	(3.8%)

Notes:

(1) Represents other expenses resulting from non-operational related activities, including provisions for estimated damages for outstanding legal claims related to historic volumes. 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 June 30,**				**Six Months Ended June 30,**			
	2023	**2022**	**Change**	%	**2023**	**2022**	**Change**	%
Operating income	**$16,686**	**$4,264**	**$ 12,422**	291.3%	**$22,518**	**$7,987**	**$ 14,531**	181.9%
Net income	**$6,576**	**$1,638**	**$ 4,938**	301.5%	**$6,132**	**$4,330**	**$ 1,802**	41.6%
Add back (deduct):								
Finance cost, net	5,288	1,277	4,011		8,851	1,361	7,490	
Income tax expense	4,978	1,895	3,083		6,784	3,072	3,712	
Depreciation and amortization included in costs of sales	214	471	(257)		428	964	(536)	
Depreciation and amortization included in operating expenses	53	77	(24)		121	143	(22)	
EBITDA	**17,109**	**5,358**	**11,751**	219.3%	**22,316**	**9,870**	**12,446**	126.1%
Other expense (income) (1)	22	735	(713)		(8)	768	(776)	
Foreign exchange (gain) loss (2)	(178)	(1,280)	1,102		758	(1,543)	2,301	
Share-based compensation (3)	(3)	66	(69)		48	125	(77)	
Impairment of assets	—	295	(295)		—	295	(295)	
Adjusted EBITDA(I)	**$16,950**	**$5,174**	**$ 11,776**	227.6%	**$23,114**	**$9,515**	**$ 13,599**	142.9%
Adjusted EBITDA Margins(II)	34.0%	20.0%			29.3%	17.3%		
Revenue	$49,825	$25,892	$ 23,933	92.4%	$78,901	$54,954	$ 23,947	43.6%
Sales volume (tonnes)	82	120	(38)	(31.7%)	180	257	(77)	(30.0%)

Notes:

(1) Represents other (income) expense resulting from non-operational related activities, and the 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 (gains) 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.

9. Summary of Consolidated Quarterly Results

($000s, except for earnings per share information)	2023		2022				2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	**$170,430**	**$135,530**	**$159,168**	**$146,627**	**$168,221**	**$166,282**	**$153,414**	**$119,841**
Net income (loss) attributable to equity holders of Neo	**310**	**(10,454)**	**(7,291)**	**(3,719)**	**14,607**	**22,350**	**6,735**	**8,036**
Basic EPS	0.01	(0.23)	(0.16)	(0.09)	0.36	0.55	0.17	0.21
Diluted EPS	0.01	(0.23)	(0.16)	(0.09)	0.36	0.54	0.17	0.21
Operating income (loss)	**13,675**	**(3,997)**	**6,727**	**2,239**	**20,963**	**28,685**	**12,726**	**12,558**
Net income (loss)	**329**	**(10,700)**	**(7,162)**	**(3,812)**	**14,691**	**22,701**	**7,263**	**8,136**
Add back (deduct):								
Finance cost, net	4,085	4,012	11,116	1,437	2,292	414	1,523	747
Income tax expense (recovery)	5,988	1,610	2,022	3,775	6,001	5,995	(702)	3,670
Depreciation and amortization included in costs of sales	2,368	2,168	2,361	2,279	2,388	2,378	2,405	1,980
Depreciation and amortization included in operating expenses	1,814	1,766	1,784	1,781	1,853	1,896	1,891	1,908
EBITDA	**14,584**	**(1,144)**	**10,121**	**5,460**	**27,225**	**33,384**	**12,380**	**16,441**
Add back:								
Other expense (income) (1)	171	478	492	448	855	433	4,351	(462)
Foreign exchange loss (gain) (2)	662	580	(476)	723	(959)	411	2,544	755
Equity loss (income) of associates	2,440	23	735	(332)	(1,917)	(1,269)	(2,253)	(288)
Share and value-based compensation (3)	(82)	850	610	735	957	181	1,765	1,198
Impairment of assets (4)	—	—	938	—	295	—	121	—
Fair value adjustments to inventory acquired (5)	572	—	—	—	—	—	—	—
Transaction costs (recoveries) (6)	1,201	—	—	—	—	(22)	744	6
Adjusted EBITDA(I)	**$19,548**	**$ 787**	**$12,420**	**$ 7,034**	**$26,456**	**$33,118**	**$19,652**	**$17,650**
Adjusted EBITDA Margins(II)	*11.5%*	*0.6%*	*7.8%*	*4.8%*	*15.7%*	*19.9%*	*12.8%*	*14.7%*

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) In accordance with IFRS 3 *Business Combinations,* and on completion of the acquisition of SGTec, Neo recorded the acquisition of SGTec's inventory at fair value, which included a mark-up for profit of $1.3 million. A portion of this inventory was sold in the three months ended June 30, 2023 and had a $0.6 million impact on Net (loss) income.

(6) These represent primarily legal, professional advisory fees and other transaction costs for capital structuring associated with Neo or investments of Neo. Neo has removed these charges to provide comparability with historic periods. For the three and six months ended June 30, 2023, Neo incurred a total acquisition-related costs of $1.2 million in the acquisition of SGTec. These costs have been included in selling, general and administrative costs in the condensed consolidated statements of profit or loss.

10. Liquidity and Capital Resources

Six months ended June 30, 2023 compared to six months ended June 30, 2022:

	Six Months Ended June 30,			
($000s)		**2023**		**2022**
Cash flow:				
Cash provided by (used in) operating activities	$	42,762	$	(16,178)
Cash used in investing activities		(27,801)		(9,364)
Cash provided by (used in) financing activities		(33,552)		3,937

Financial position - as at		**June 30, 2023**		**December 31, 2022**
Cash and cash equivalents	$	126,915	$	147,491
Restricted cash		3,272		1,179
Property, plant and equipment		92,167		75,767
Total assets		645,477		676,460
Bank advances and other short-term debt		8		17,288
Current portion of long-term debt		—		747
Long-term debt		26,609		29,885

As of June 30, 2023, Neo had cash and cash equivalents of $126.9 million plus restricted cash of $3.3 million, compared to $147.5 million plus $1.2 million as at December 31, 2022. For the six months ended June 30, 2023, Neo funded $11.6 million for the acquisition of SGTec, net of cash acquired of $0.8 million and $2.0 million of the proceeds held in escrow, invested $4.5 million in NNSR, paid $6.7 million in dividends to its shareholders and made the NCIB purchases in the amount of $1.2 million. Neo also repaid $17.3 million of its bank advances and other short-term debt, as well as $7.0 million of its debt facility in Estonia in the six months ended June 30, 2023. 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

- $20.2 million from operations before net change in working capital, income taxes paid and net interest received;
- $29.8 million net change in working capital.

Outflows

- $6.7 million of dividends paid to shareholders;
- $1.2 million of share repurchased under NCIB

- $1.2 million of lease payments;
- $17.3 million repayment on bank advances and other short-term debts;
- $7.0 million repayment of Estonia debt facility;
- $11.6 million for the acquisition of SGTec, net of cash acquired of $0.8 million;
- $2.0 million increase in restricted cash (portion of the proceeds held in escrow for the acquisition of SGTec);
- $4.5 million investment in NNSR;
- $9.6 million of other capital spending; and
- $8.0 million of income taxes paid;

Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities was $42.8 million for the six months ended June 30, 2023, compared to net cash used in operating activities of $16.2 million for the six months ended June 30, 2022.

The $29.8 million net change in working capital for the six months ended June 30, 2023, was primarily attributable to 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 decrease was partially offset by a decrease in accounts payable and other accrued charges and an increase in accounts receivables.

Cash Used in Investing Activities

For the six months ended June 30, 2023, net cash used in investing activities was $27.8 million, compared to $9.4 million for the six months ended June 30, 2022. The cash used in investing activities was primarily related to the acquisition of SGTec of $11.6 million (net of cash acquired of $0.8 million), an increase in the restricted cash of $2.0 million (represents a portion of the proceeds held in escrow for the acquisiton of SGTec), a $4.5 million investment in NNSR, $5.0 million (including capitalized interest of $1.4 million relating to the EDC facility) for NAMCO relocation, $1.3 million on the establishment of the Sintered Magnet manufacturing capability in Europe, as well as additional capital projects performed at the 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 six months ended June 30, 2023 was $33.6 million, compared to $3.9 million net cash provided by financing activities in for the six months ended June 30, 2022. For the six months ended June 30, 2023, Neo repaid $17.3 million of its bank advances and other short-term debt, repaid $7.0 million of its Estonia term debt facility, spent $1.2 million in shares repurchased, distributed $6.7 million in dividends to its shareholders, and spent $1.2 million in lease payments. In the six months ended June 30, 2022, Neo drew down $6.4 million from its bank advances and other short-term debt, borrowed $4.5 million from its Estonia term debt facility, distributed $6.3 million in dividends to its shareholders, and spent $0.8 million in lease payments.

($000s)

Cash and cash equivalents by Country as at	June 30, 2023	December 31, 2022
China (including Hong Kong)	$ 62,855	$ 55,526
Estonia	3,416	5,709
United States	6,276	4,524
Canada	9,222	47,440
Japan	3,388	1,238
United Kingdom	5,697	6,937
Germany	14,386	10,216
Singapore	6,529	6,867
Barbados	859	721
Thailand	13,477	7,444
Cayman Islands	33	28
Other	777	842
Total cash and cash equivalents	**$ 126,915**	**$ 147,492**

Approximately $15.7 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, Germany and the UK, 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	$ 8	$ —	$ —	$ —	8
Accounts payable and other accrued charges	62,577	—	—	—	62,577
Derivative liabilities (1)	37,186	1,894	—	—	39,080
EDC credit facility (2)	—	5,000	20,000	—	25,000
Barclays bank loan facilities (3)	352	2,501	—	—	2,853
Provisions (4)	1,299	24,653	—	—	25,952
Lease obligations (5)	1,554	2,138	195	1,149	5,036
Other liabilities	1,131	1,063	78	233	2,505
Total	**$ 104,107**	**$ 37,249**	**$ 20,273**	**$ 1,382**	**$ 163,011**

Notes:

(1) a) Represents the fair value of the put option on shares of the remaining shareholder of Buss & Buss, and; b) the fair value of the put option on the remaining 10% of SGTec that continues to be owned by the Retained Shareholders.

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

(3) Represents SGTec's two term loan facilities in the amounts of $3.0 million (2.4 million GBP) and $0.4 million (0.3 million GBP), and a sales financing facility with Barclays Bank PLC ("**Barclays**") in the UK for general corporate purposes. The term loan facilities can be drawn in GBP and accrues interest at either a fixed or floating rate, as administered by the Bank of England bank rate, plus an applicable margin.

(4) Represents management's best estimate of a) 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, b) an estimated damages provision related to legal proceedings (see "*Other Expenditures and Legal Contingencies*"), and, c) the estimated contingent consideration is paid to the selling shareholders in accordance with their seller percentage in the event SGTec's average adjusted EBITDA during the period April 1, 2023 to March 31, 2026 is greater than 2 million GBP.

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

As at June 30, 2023, Neo had $126.9 million of cash and cash equivalents and approximately $3.3 million of restricted cash. The restricted cash is held as collateral against Letters of Credit. Neo believes that the remainder of its cash, in addition to cash from operating activities, is available (or sufficient) to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months. Neo considers cash to be "available" to the extent it can be utilized in operating activities, for capital expenditures, for intercompany loans or for repatriation. Neo also maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

12. Normal Course Issuer Bid

On June 14, 2023, Neo announced that the TSX had accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**NCIB**") for up to 3,585,011 of its issued and outstanding common shares. In connection with the NCIB, Neo has entered into an automatic share purchase plan with its designated broker to allow for purchases of its shares (the "**Share Purchase Plan**"). The Share Purchase Plan is considered an "automatic plan" for purposes of applicable Canadian securities laws. Under the Share Purchase Plan, purchases under the NCIB will not exceed 25,290 shares on any trading day during the NCIB, including during self-imposed trading blackout periods. The price that Neo will pay for any shares purchased under the NCIB will be the prevailing market price at the time of purchase. Any shares purchased by Neo will be canceled. The Share Purchase Plan terminates on June 18, 2024.

For the three and six months ended June 30, 2023, Neo repurchased and canceled 191,770 shares for $1.2 million. There were no shares repurchased for the three and six months ended June 30, 2022.

Between July 1 and August 10, 2023, Neo repurchased, for cancellation, 484,600 shares for a total consideration of $3.2 million.

13. Subsequent Events

Dividends payable to equity holders of Neo

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

14. Off-Balance Sheet Arrangements

As of June 30, 2023, Neo's only off-balance sheet arrangements are purchase obligations.

15. Significant Management Judgment in Applying Accounting Policies, Estimates and Assumptions

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.

Business combination – SG Technologies Group Limited ("SGTec")

On initial recognition, the identifiable assets and liabilities acquired and the consideration paid, including any contingent consideration, are recorded at the date of acquisition at their respective fair value. Management uses estimates about future cash flows and discount rates in estimating these fair values. In accordance with IFRS 3 *Business combination,* Neo has one year to finalize the measurement of the assets and liabilities acquired, and the consideration paid. Any measurement changes during this time would affect goodwill or a bargain purchase gain.

16. 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.

16.1 Transactions with associates

On occasion, MQTJ will supply Magnequench Powders to TMT to produce rare earth magnetic compounds. MQTJ will then purchase these compounds back from TMT in its normal course of business. Keli and GQD process rare earth oxides into metals for inclusion in Magnequench Powders.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Purchase of goods and services from associates:				
TMT	$ 1,934	$ 462	$ 3,651	$ 1,075
Keli	6,228	18,458	12,314	44,804
GQD	596	6,661	3,097	12,770
Sales of goods and services to associates:				
TMT	2,691	2,744	5,946	5,385
Keli	—	656	—	1,374

16.2 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 June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Sale of goods to Toda	$ —	$ 675	$ 1,349	$ 1,154
Purchase of goods from Qian Dong	222	—	3,014	1,640

16.3 Transactions with other related parties

Neo, through one of its subsidiaries in China, MQCZ, has occasionally sold products to Atatsu Co., Ltd. ("**Atatsu**") for resale to third party customers. Atatsu is controlled by members of MQCZ's key management personnel. For the three and six months ended June 30, 2023, sales to Atatsu were nominal and $0.1 million, respectively. For the three and six months ended June 30, 2022, sales to Atatsu were $0.1 million and $0.4 million, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Sale of goods and services to related parties	$ 3,204	$ 5,509	$ 13,858	$ 9,601
Purchase of goods and services from related parties	8,980	25,581	22,076	60,289

	June 30, 2023	**December 31, 2022**
Trade balances:		
from related parties	$ 1,097	$ 2,374
due to related parties	(2,339)	(9,295)
Total	**$ (1,242)**	**$ (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 compensations are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Directors	$ 167	$ 97	$ 334	$ 196
Key Executive Management	1,091	1,093	2,187	3,205
Total	**$ 1,258**	**$ 1,190**	**$ 2,521**	**$ 3,401**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Directors	$ 272	$ (4)	$ 236	$ (474)
Key Executive Management	(206)	816	485	1,268
Total	**$ 66**	**$ 812**	**$ 721**	**$ 794**

17. Recent Accounting Pronouncements

17.1 Neo adopted the following accounting standards and amendments to accounting standards during the period ended June 30, 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 this amendment 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 June 30, 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 June 30, 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 June 30, 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.

On April 19, 2023, Neo, through its subsidiary in the UK, NVEL, completed its acquisition of 90% of the outstanding share capital of SGTec. As of the date of this report, Neo management has not formally documented and evaluated SGTec's (the "**Acquired Entity**") internal controls over financial reporting, as the acquired entity is exempt during the first year subsequent to its acquisition under Part 3.3 of National Instrument 52-109. Therefore, management has excluded from their scope a review of the controls, policies and procedures of the Acquired Entity in relation to its certification of Interim Filings, FORM 52-109F2, paragraph 5(b), for the period ended June 30, 2023. Management expects to complete its formal documentation and evaluation of both the design and operating effectiveness of internal controls over financial reporting of the Acquired Entity by April 19, 2024.

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 June 30, 2023**
Common Shares	45,021,762
Stock Options*	1,517,318
Restricted Share Units & Performance Stock Units	587,838

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

The number of common shares outstanding as at August 10, 2023 is 44,537,162.

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

II. See Section 7 "*Non-IFRS Measures*", which includes definitions and calculations of such non-IFRS ratios.