MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2023

Management's Discussion and Analysis

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

The following Management's Discussion and Analysis ("**MD&A**") for Neo Performance Materials Inc. ("**Neo**") should be read in conjunction with the MD&A and audited consolidated financial statements and related notes thereto for the year ended December 31, 2022, dated March 28, 2023, and the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 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 IFRS Accounting Standards 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 November 9, 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 the 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, November 9, 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 1,870 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 continues 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 September 30,			Nine Months Ended September 30,		
	2023	2022	2021	2023	2022	2021
Revenue						
Magnequench	$ 54,414	$ 67,402	$ 60,063	$ 158,908	$ 219,828	$ 192,856
C&O	57,812	52,231	45,677	180,377	189,244	152,322
Rare Metals	25,976	31,567	19,509	104,877	86,521	56,308
Corporate / Eliminations	(1,285)	(4,573)	(5,408)	(1,285)	(14,463)	(15,649)
Consolidated Revenue	**$ 136,917**	**$ 146,627**	**$ 119,841**	**$ 442,877**	**$ 481,130**	**$ 385,837**
Operating Income						
Magnequench	$ 2,911	$ 4,897	$ 8,130	$ 4,943	$ 27,995	$ 31,805
C&O	6,068	(5,298)	7,142	1,466	21,324	27,184
Rare Metals	2,749	5,199	2,074	25,267	13,186	4,168
Corporate / Eliminations	(4,769)	(2,559)	(4,788)	(15,039)	(10,618)	(15,996)
Consolidated Operating Income	**$ 6,959**	**$ 2,239**	**$ 12,558**	**$ 16,637**	**$ 51,887**	**$ 47,161**
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") (1)						
Magnequench	$ 6,042	$ 7,282	$ 10,503	$ 15,199	$ 35,384	$ 38,872
C&O	7,737	(3,863)	8,059	6,088	25,710	29,712
Rare Metals	3,293	5,797	2,715	26,407	15,312	6,080
Corporate / Eliminations	(3,912)	(2,182)	(3,627)	(13,572)	(9,799)	(12,401)
Consolidated Adjusted EBITDA	**$ 13,160**	**$ 7,034**	**$ 17,650**	**$ 34,122**	**$ 66,607**	**$ 62,263**
Net Income (Loss)	**$ 3,109**	**$ (3,812)**	**$ 8,136**	**$ (7,262)**	**$ 33,580**	**$ 28,780**
Attributable to:						
Equity holders of Neo	3,069	(3,719)	8,036	(7,075)	33,238	28,442
Non-controlling interest	40	(93)	100	(187)	342	338
Earnings (Loss) per share attributable to equity holders of Neo						
Basic	$ 0.07	$ (0.09)	$ 0.21	$ (0.16)	$ 0.81	$ 0.75
Diluted	$ 0.07	$ (0.09)	$ 0.21	$ (0.16)	$ 0.80	$ 0.75
Adjusted Net Income (Loss) (2)	**$ 4,013**	**$ (1,910)**	**$ 9,792**	**$ (1,876)**	**$ 37,442**	**$ 38,978**
Attributable to:						
Equity holders of Neo	3,973	(1,817)	9,692	(1,689)	37,100	38,640
Non-controlling interest	40	(93)	100	(187)	342	338
Adjusted earnings (loss) per share attributable to equity holders of Neo (2):						
Basic	$ 0.09	$ (0.04)	$ 0.26	$ (0.04)	$ 0.91	$ 1.02
Diluted	$ 0.09	$ (0.04)	$ 0.25	$ (0.04)	$ 0.90	$ 1.01
Capital expenditures excluding business combination (3)	$ 7,793	$ 1,734	$ 2,374	$ 19,629	$ 11,098	$ 6,631
Cash taxes paid	$ 3,288	$ 4,436	$ 3,244	$ 11,321	$ 8,847	$ 7,032
Dividends paid to shareholders	$ 3,339	$ 3,523	$ 3,018	$ 10,061	$ 9,861	$ 9,229
Repurchase of common shares under Normal Course Issuer Bid	$ 15,482	$ —	$ —	$ 16,684	$ —	$ 37

	September 30	December 31,	
	2023	2022	2021
Cash and cash equivalents	$ 113,419	$ 147,491	$ 89,037
Bank advances & other short-term debt	$ —	$ 17,288	$ 6,502
Current portion & long-term debt	$ 25,250	$ 30,632	$ —

Notes:

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

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

(3) Includes capital expenditures of $7.8 million for the three months ended September 30, 2023 and capital expenditures of $17.4 million and right-of-use assets of $2.2 million for the nine months ended September 30, 2023.

Highlights for the three and nine months ended September 30, 2023

Consolidated Results

- For the three and nine months ended September 30, 2023, revenues were $136.9 million and $442.9 million, respectively, compared to $146.6 million and $481.1 million, respectively, in the same periods of 2022; a decrease of $9.7 million or 6.6% compared to the three months ended September 30, 2022 and a decrease of $38.3 million or 8.0% compared to the nine months ended September 30, 2023. Operating income for the three and nine months ended September 30, 2023 was $7.0 million and $16.6 million, respectively, an increase of $4.7 million and a decrease of $35.3 million, respectively, compared to the same periods of the prior year.

- After steady pricing declines since the first quarter of 2022, selling prices for rare earth products (including Magnequench powders) began to stabilize during the third quarter of 2023 Rare earth prices for magnetic elements declined by 25%-35% since December 2022 and approximately 55% from peak prices in the first quarter of 2022. As a result of this steep decline, margins have been negatively impacted due to unfavorable lead-lag (the processing and selling of higher cost inventory purchased months earlier). As prices stabilize and material costs in sales start to parallel replacement costs, this will neutralize the unfavorable lead-lag and allow the rare earth separation business to deliver improved margin performance, as seen in the third quarter with the C&O segment delivering its strongest adjusted EBITDA since the second quarter of 2022. 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 months ended September 30, 2023, Magnequench volume was up compared to prior quarter and prior year periods with increases driven by a recovery in automotive and spot sales in China. C&O maintained strong performance within key product lines including environmental emissions catalyst, water treatment, and high purity dysprosium. After a record second quarter, Rare Metals saw a decline in hafnium volumes and margins due to timings of shipments and mix of low margin legacy contracts delivered in the second quarter.

- Adjusted EBITDA(1) for the three and nine months ended September 30, 2023 was $13.2 million and $34.1 million, respectively, an increase of $6.1 million and a decrease of $32.5 million, respectively, compared to the same periods of the prior year. Similar to operating income, for the three months ended September 30, 2023, Adjusted EBITDA(1) was lower in Rare Metals and Magnequench, partially offset by the stronger performance in C&O.

- Magnetic end markets remain soft with select end markets showing signs of recovery. 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 sales; 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 of these end markets, and with Neo’s extensive experience as a rare earth magnetics company operating both inside and outside of China, Neo is well positioned to take advantage of these market trends.

Magnequench Segment

- For the three and nine months ended September 30, 2023, revenues in the Magnequench segment were $54.4 million and $158.9 million, respectively, compared to $67.4 million and $219.8 million, respectively, in the same periods of 2022; a decrease of $13.0 million and $60.9 million, respectively. Operating income in the Magnequench segment for the three and nine months ended September 30, 2023 was $2.9 million and $4.9 million, respectively, decreases of $2.0 million and $23.1 million, respectively, when compared to the three and nine months ended September 30, 2022. Adjusted EBITDA[1] in the Magnequench segment for the three and nine months ended September 30, 2023, was $6.0 million and $15.2 million compared to $7.3 million and $35.4 million in the three and nine months ended September 30, 2022; decreases of $1.2 million and $20.2 million, respectively.

- For the three months ended September 30, 2023, volumes in the Magnequench segment (excluding SGTec) saw an increase of 19% compared to same period in 2022. In a challenging market environment, Magnequench has grown its magnet business through new wins and in-sourcing magnet production as well as increased spot sales in China. In addition, automotive applications started to show signs of recovery in the third quarter; however, demand for non-automotive, including residential and home appliances, remained weak. For the nine months ended September 30, 2023, volumes in the Magnequench segment (excluding SGTec) saw a decline of 10% compared to the same period in 2022 which is reflective of overall demand softness in the permanent magnet industry which has impacted the Magnequench powder business driving volumes down 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.

- For the three and nine months ended September 30, 2023, gross margins per ton in the Magnequench segment were lower compared to same periods in 2022. The segment conducted a rationalization of its workforce in the first half of 2023 and continues to make progress on its operational improvement efforts to deliver better inventory performance and sustainable reductions in processing costs. However, as rare earth magnetic prices declined, Magnequench experienced a negative lead-lag impact through the first nine months of 2023. Magnequench has pass-through pricing agreements for rare earth magnetic elements in most 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. Rare earth prices began to stabilize in the third quarter, and if this trend continues over the coming months, the impact of lead-lag should moderate. 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. In addition, gross margin per ton was negatively impacted due to unfavorable mix. This was primarily due to increasing China spot sales volume at dilutive margins to reduce finished goods inventory and lead-lag risk which the Magnequench segment diligently monitors and proactively manages.

- 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. Magnequench launched construction of the first rare earth magnet manufacturing facility in Europe designed to produce specialized rare earth permanent magnets for use in electric vehicles, wind turbines, and other clean energy technologies. See further discussion in section 5.2.1 under the heading "Rare Earth Magnet Plant in Europe". In addition, the SGTec acquisition closed during the second quarter and continues to perform 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 nine months ended September 30, 2023, revenues in the C&O segment were $57.8 million and $180.4 million, respectively, compared to $52.2 million and $189.2 million, respectively, in the same periods of 2022; an increase of $5.6 million and a decrease of $8.9 million, respectively. Operating income in the C&O segment for the three and nine months ended September 30, 2023, was $6.1 million and $1.5 million, respectively, compared to an operating loss of $5.3 million and operating income of $21.3 million in the same periods of 2022. Adjusted EBITDA[1] for the C&O segment was $7.7 million and $6.1 million for the three and nine months ended September 30, 2023; an increase of $11.6 million and a decrease of $19.6 million, respectively, when compared to the same periods of 2022.

- The C&O volume and pricing dynamics remained mixed during the third quarter. The primary headwind for the business over the last several quarters has been the rapid decline in rare earth prices. This 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 pricing for the magnetic elements neodymium and praseodymium began to stabilize during the third quarter with September 2023 pricing up approximately 4% versus June 2023 but down approximately 30% versus December 2022. As prices stabilize, C&O expects to deliver improved margins from rare earth separation. The C&O segment is well positioned offering the only parallel supply chain to separate rare earths inside and outside of China. In addition, high purity dysprosium continued to deliver strong margins for the business. The dysprosium volumes were related to the higher-value multi-layer ceramic capacitor ("**MLCC**") market as opposed to the standard grade dysprosium which pertains to the magnetics market.

- The environmental emissions catalyst business continued its positive trend delivering sequential quarterly volume improvements in each quarter of 2023. Although select end markets remain soft, volume gains have been driven by new wins supporting diesel applications, as well as volume recovery in China.

- In addition, the C&O segment continues to innovate and invest in new rare earth applications. As products are developed and commercialized, it will open new end markets at accretive margins for the segment.

- The environmentally protective water treatment solutions business is an example of an innovative product which continues to gain traction delivering another record quarter for both volumes and gross margins as the business grows and scales its customer base.

Rare Metals Segment

- For the three and nine months ended September 30, 2023, revenues in the Rare Metals segment were $26.0 million and $104.9 million, respectively, compared to $31.6 million and $86.5 million, respectively, in the same periods of 2022; a decrease of $5.6 million and an increase of $18.4 million, respectively. Operating income in the Rare Metals segment for the three and nine months ended September 30, 2023, was $2.7 million and $25.3 million, respectively, compared to $5.2 million and $13.2 million, respectively, in the same periods of 2022; a decrease of $2.5 million and an increase of $12.1 million, respectively. Adjusted EBITDA[1] in the Rare Metals segment for the three and nine months ended September 30, 2023, was $3.3 million and $26.4 million, respectively, compared to $5.8 million and $15.3 million, respectively, in the same periods of 2022; a decrease of $2.5 million and an increase of $11.1 million, respectively.

- After record earnings in the second quarter of 2023 driven by strength in hafnium pricing and demand, Rare Metals delivered earnings below expectations in the third quarter. Unfortunately, hafnium earnings in the third quarter of 2023 were negatively impacted by fulfilling nearly all the remaining committed volumes on legacy contracts at lower selling prices. The upward trend in hafnium prices which began in the fourth quarter of 2021 began to moderate during the third quarter of 2023; however, prices remain at unprecedented highs with September 2023 prices up over 600% compared to December 2021. Demand for hafnium remains strong driven by memory chips and superalloys. On the supply side, hafnium is generally produced as a byproduct of nuclear Zirconium production which has nominal forecasted growth. Although this supply and demand imbalance will likely moderate over time, the fundamentals of the hafnium business remain strong in the short to intermediate term (6-12 months), and Rare Metals has an effective business model through the recycling of scrap material which is impactful in 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 Rare Metals segment continues to make progress on several key strategic initiatives, expanding its customer base and diversifying its total end-market exposure. In addition, the Rare Metals segment continues to evaluate plant effectiveness with the goal of refocusing on higher value manufacturing operations, expanding the capacity of key products with minimal capital investment, and directing the sales pipeline toward these more profitable end products that require higher purity and more demanding specifications.

- Prices for gallium outside of China were up over 50% during the third quarter amidst the Government of China export restrictions in August 2023. Outside of China gallium demand continues to exceed raw materials availability. 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 quote new business and seek sourcing options for additional gallium waste streams to support global market growth.

Cash and Other Highlights for the nine months ended September 30, 2023

- Neo's balance sheet remains strong, underscoring its sound financial position. As at September 30, 2023, Neo had $113.4 million in cash, $3.2 million in restricted cash, offset by a nominal amount in bank advances and other short-term debt, and $25.3 million in drawn credit facilities, net of transaction costs of $1.6 million, resulting in net cash of $91.4 million. Neo repaid $17.3 million of its bank advances and other short-term debt, $7.0 million of its debt facility at NPM Silmet OÜ ("**Silmet**") and $1.3 million of term loan facilities at SGTec in the nine months ended September 30, 2023. Neo also funded the $14.4 million acquisition of SGTec on April 19, 2023 with cash on hand (a portion of the proceeds remain held in escrow).

- Cash generation has been positively impacted in the nine months ended September 30, 2023 as Neo continued to convert its higher-cost rare earth feedstock in inventory. Working capital decreased by $37.4 million in the nine months ended September 30, 2023.

- Neo invested $17.4 million in capital expenditures (excluding $12.0 million relating to property, plant and equipment as part of the acquisition of SGTec) for the nine months ended September 30, 2023, compared to $11.1 million for the nine months ended September 30, 2022. This increase spend on capital expenditures was primarily driven by strategic capital projects including the Neo Jia Hua Advanced Materials (Zibo) Co., Ltd. ("**NAMCO**") relocation and the rare earth magnet plant in Europe. See further discussion in Section 5, under the heading "*Update on Selected Strategic Initiatives*".

- Neo has shown strong commitment to returning capital to shareholders. 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 nine months ended September 30, 2023, Neo repurchased and cancelled 2,585,940 shares for $16.7 million. In addition, Neo paid dividends to its shareholders of $10.1 million for the nine months ended September 30, 2023.

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 September 30, 2023, there has been no significant impact on Neo's operations.

Neo's facility in Silmet, Estonia, 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 of the date hereof, however, Neo has not had significant issues securing raw materials. 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 needed 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 of 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, 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 at September 30, 2023, Neo had spent approximately $18.0 million (RMB 131.1 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 of the new manufacturing facility, in August 2022, Neo entered into a $75.0 million credit facility with Export Development Canada ("**EDC**") which envisions three tranches of $25.0 million each to fund anticipated relocation costs. As at September 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 $19.7 million (€18.7 million) from the Government of Estonia under Europe's Just Transition Fund ("**JTF**") for eligible project costs of up to $103.5 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 September 30, 2023, Neo has spent approximately $0.9 million in out-of-pocket costs on this endeavor and has allocated significant internal resources for its preparation and execution. Neo has capitalized approximately $2.6 million of expenditures associated with the establishment of the Sintered Magnet manufacturing capability in Europe for the nine months ended September 30, 2023.

5.2.2 Acquisition of 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, as well as other high-growth-potential nascent technology applications that are critical to current global energy transition trends.

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.

SGTec continues to deliver in line with expectations while making strong progress on integrating back-office functions including information technology, finance, human resources, and employee health and safety. In addition, the business has successfully driven operational improvement projects such as adjusting shift patterns, increasing operator scope, and right sizing its cost base to align with demand.

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 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 ongoing.

Rare earth prices, particularly the magnetic elements, have historically been quite volatile. As an example, in recent history, the market index price (excluding China) of neodymium ("**Nd**"), a key magnetic element, was approximately $49 per kilogram ("**/kg**") in the third quarter of 2020, $93/kg in the third quarter of 2021, $114/kg in the third quarter of 2022, and $69/kg in the third 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 with finished goods 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 costs 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.

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 nine months ended September 30, 2023 to the three and nine months ended September 30, 2022

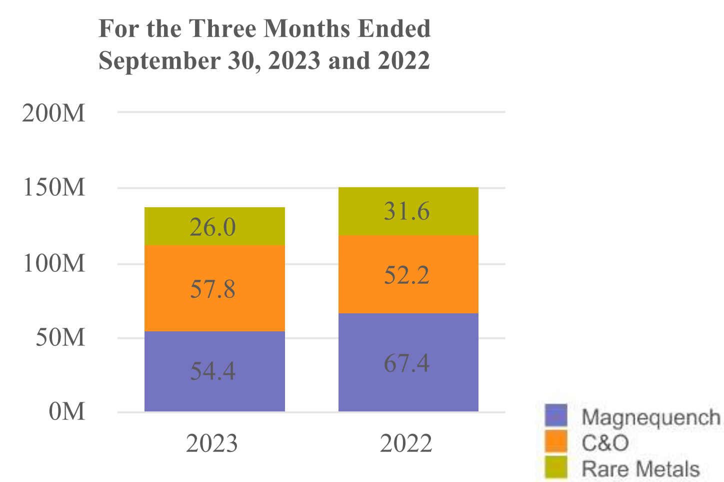
($000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Revenue	136,917	146,627	442,877	481,130
Cost of sales				
Cost excluding depreciation and amortization	106,255	120,137	355,465	356,249
Depreciation and amortization	2,674	2,279	7,210	7,045
Gross profit	**27,988**	**24,211**	**80,202**	**117,836**
Expenses				
Selling, general and administrative	13,688	13,781	44,670	42,296
Share-based compensation	1,024	735	1,792	1,873
Depreciation and amortization	1,794	1,781	5,374	5,529
Research and development	4,523	5,675	11,729	15,956
Impairment of assets	—	—	—	295
	21,029	21,972	63,565	65,949
Operating income	**6,959**	**2,239**	**16,637**	**51,887**
Other income (expense)	1,011	(448)	362	(1,736)
Finance income (cost), net	648	(1,437)	(7,449)	(4,143)
Foreign exchange loss	(190)	(723)	(1,432)	(175)
Income (loss) from operations before income taxes and equity (loss) income of associates	**8,428**	**(369)**	**8,118**	**45,833**
Income tax expense	(4,124)	(3,775)	(11,722)	(15,771)
Income (loss) from operations before equity (loss) income of associates	**4,304**	**(4,144)**	**(3,604)**	**30,062**
Equity (loss) income of associates (net of income tax)	(1,195)	332	(3,658)	3,518
Net income (loss)	**$ 3,109**	**$ (3,812)**	**$ (7,262)**	**$ 33,580**
Attributable to:				
Equity holders of Neo Performance Materials Inc.	3,069	$ (3,719)	(7,075)	$ 33,238
Non-controlling interest	40	(93)	(187)	342
	$ 3,109	**$ (3,812)**	**$ (7,262)**	**$ 33,580**
Earnings (loss) per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic	$ 0.07	$ (0.09)	$ (0.16)	$ 0.81
Diluted	$ 0.07	$ (0.09)	$ (0.16)	$ 0.80

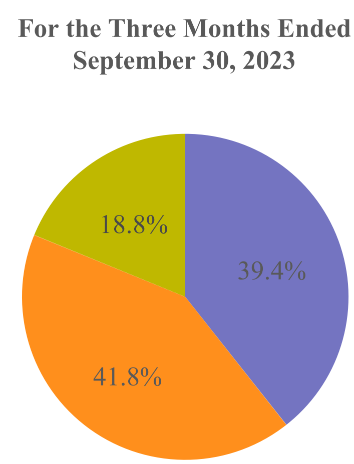
Revenue

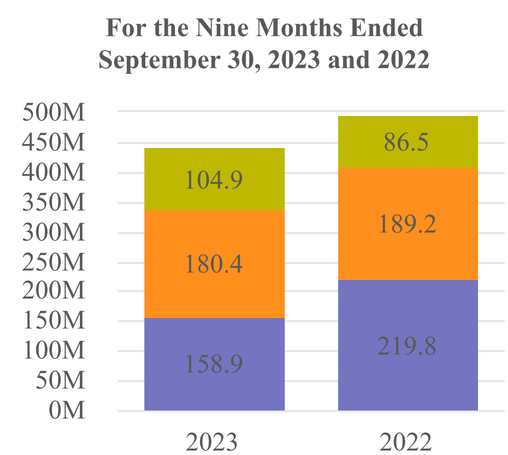
Neo's consolidated revenue for the three and nine months ended September 30, 2023, was \$136.9 million and \$442.9 million, respectively, compared to \$146.6 million and \$481.1 million, respectively, for the three and nine months ended September 30, 2022, decreases of \$9.7 million or 6.6%, and \$38.3 million or 8.0%, respectively.

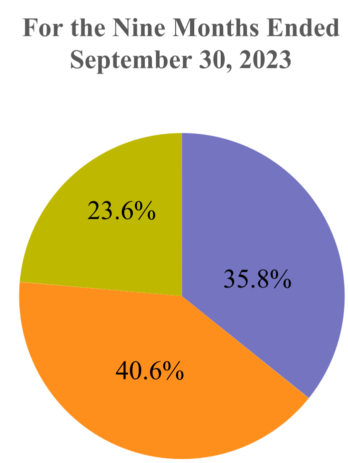
(\$000s)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023	**2022**	**Change**	**%**	**2023**	**2022**	**Change**	**%**
Magnequench	\$ 54,414	\$ 67,402	\$ (12,988)	(19.3%)	\$ 158,908	\$ 219,828	\$ (60,920)	(27.7%)
C&O	57,812	52,231	5,581	10.7%	180,377	189,244	(8,867)	(4.7%)
Rare Metals	25,976	31,567	(5,591)	(17.7%)	104,877	86,521	18,356	21.2%
Eliminations	(1,285)	(4,573)	3,288	71.9%	(1,285)	(14,463)	13,178	91.1%
Consolidated Revenue	**\$ 136,917**	**\$ 146,627**	**\$ (9,710)**	(6.6%)	**\$ 442,877**	**\$ 481,130**	**\$ (38,253)**	(8.0%)

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









Notes:

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

Inter-segment revenue for the three and nine months ended September 30, 2023 was $1.3 million for both periods, compared to $4.6 million and $14.5 million, respectively, for the three and nine months ended September 30, 2022. 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.

Cost of sales

Consolidated cost of sales, excluding depreciation and amortization, for the three months ended September 30, 2023 was $106.3 million or 77.6% of revenue, compared to $120.1 million or 81.9% of revenue for the three months ended September 30, 2022. For the nine months ended September 30, 2023, consolidated cost of sales, excluding depreciation and amortization, was $355.5 million or 80.3% of revenue, compared to $356.2 million or 74.0% of revenue in the same period of the prior year. Cost 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 cost of sales were $2.7 million and $7.2 million for the three and nine months ended September 30, 2023, respectively, compared to $2.3 million and $7.0 million, respectively, for the three and nine months ended September 30, 2022. Consolidated depreciation and amortization in cost of sales for the three and nine months ended September 30, 2023 decreased due to lower carrying values 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 cost 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 nine months ended September 30, 2023, SG&A expense was $13.7 million and $44.7 million, respectively, comparable to $13.8 million and $42.3 million, respectively, in the corresponding periods last year.

For the three months ended September 30, 2023, Neo incurred $0.3 million of project costs related to the establishment of the Sintered Magnet manufacturing capability in Europe. For the nine months ended September 30, 2023, SG&A expense includes acquisition-related costs of $1.2 million for the acquisition of SGTec, as well as $0.9 million of project costs related to the establishment of the Sintered Magnet manufacturing capability in Europe.

Share-based compensation

For the three and nine months ended September 30, 2023, share-based compensation expense was $1.0 million and $1.8 million, respectively, compared to expenses of $0.7 million and $1.9 million, respectively, for the three and nine months ended September 30, 2022. The higher expense in the three months ended September 30, 2023 is mainly due to the additional expense from awards granted in June 2023 as well as the increased service period expense for awards granted in June 2023, March 2022 and September 2021. This was partially offset by the lower share price for Neo's common shares in the current period which decreased the fair value of the cash-settled awards.

Depreciation and amortization

Depreciation and amortization unrelated to production for the three and nine months ended September 30, 2023 was $1.8 million and $5.4 million, respectively, comparable to $1.8 million and $5.5 million, respectively, for the three and nine months ended September 30, 2022.

R&D

For the three and nine months ended September 30, 2023, R&D expense was $4.5 million and $11.7 million, respectively, compared to $5.7 million and $16.0 million, respectively, 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 fluctuate in any given period.

Other income (expense)

Neo reported other income of $1.0 million and other expense of $0.4 million for the three and nine months ended September 30, 2023, respectively, compared to other expense of $0.4 million and $1.7 million, respectively, for the three and nine months ended September 30, 2022. Included in other expense are charges for estimated damage claims related to legal proceedings and estimated costs for the disposal of existing naturally occurring radioactive materials ("**NORM**") as well as NORM generated during the period.

Finance income (cost), net

Finance income (cost), net, for the three and nine months ended September 30, 2023 was an income of $0.6 million and an expense of $7.4 million, respectively, compared to expenses of $1.4 million and $4.1 million, respectively, for the three and nine months ended September 30, 2022. Neo's finance income (cost), net, in both periods were primarily related to the changes in the fair values of equity securities, the derivative liabilities of put options issued to the non-controlling interests of Buss & Buss and SGTec, as well as the change in the fair value of the contingent consideration to be paid to the selling shareholders in accordance with their seller percentage in the event that SGTec’s average adjusted EBITDA during the period April 1, 2023 to March 31, 2026 is greater than 2 million GBP. The equity securities, the derivative liabilities and the contingent consideration are re-measured at each reporting period with the changes in fair value recorded to finance income (cost), net.

As at September 30, 2023, Neo had no balance outstanding on its bank advances and other short-term debt.

Income tax expense

For the three and nine months ended September 30, 2023, Neo had income tax expenses of $4.1 million and $11.7 million, respectively, on income from operations before taxes of $8.4 million and $8.1 million, respectively. For the three and nine months ended September 30, 2022, Neo had income tax expenses of $3.8 million and $15.8 million, respectively, on a loss from operations before taxes of $0.4 million and an income from operation before taxes of $45.8 million.

Neo's effective income tax rates were 48.9% and 144.4%, respectively, for the three and nine months ended September 30, 2023, and (1,023.0)% and 34.4%, respectively, for the three and nine months ended September 30, 2022.

Significant items increasing income tax expenses for the three and nine months ended September 30, 2023 include the impact of unrecognized deferred tax assets, foreign exchange translation of non-monetary assets and the benefit of certain tax losses not being recognized. The effective tax rate for the nine months ended September 30, 2023 is also impacted by the lower amount of pre-tax income for the period.

The negative effective income tax rate for the three months ended September 30, 2022 was due to the smaller amount of operating income and resulting pre-tax loss during the quarter. Significant reconciling items increasing the tax expense for the quarter include 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 $17.4 million (excluding $12.0 million relating to property, plant and equipment as part of the acquisition of SGTec) for the nine months ended September 30, 2023, compared to $11.1 million for the nine months ended September 30, 2022.

As part of the planned upgrade, expansion, and relocation of Neo's environmental emissions catalyst production facility, NAMCO, a subsidiary of Neo, continues to work on the construction of the facility at the new location, with a total of $18.0 million spent since inception (RMB 131.1 million). Of this, $6.9 million (RMB 48.5 million) was spent during the nine months ended September 30, 2023. Additionally, $2.0 million in interest expense relating to the EDC facility was capitalized in Construction in Progress for the nine months ended September 30, 2023.

For the nine months ended September 30, 2023, Neo has also capitalized approximately $2.6 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, 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	$6.2 million
European Patent EP 3009403	Germany	Not specified
European Patent EP 3009403	Estonia	$0.1 million
European EP 1435338 B1 (1)	Germany	$40.1 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 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.

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

($000s, except volume)	**Three Months Ended September 30,**				**Nine Months Ended September 30,**			
	2023	**2022**	**Change**	%	**2023**	**2022**	**Change**	%
Net income (loss)	**$ 3,109**	**$(3,812)**	**$ 6,921**	181.6%	**$(7,262)**	**$33,580**	**$(40,842)**	(121.6%)
Add back (deduct):								
Finance (income) cost, net	(648)	1,437	(2,085)		7,449	4,143	3,306	
Income tax expense	4,124	3,775	349		11,722	15,771	(4,049)	
Depreciation and amortization included in cost of sales	2,674	2,279	395		7,210	7,045	165	
Depreciation and amortization included in operating expenses	1,794	1,781	13		5,374	5,529	(155)	
EBITDA	**11,053**	**5,460**	**5,593**	102.4%	**24,493**	**66,068**	**(41,575)**	(62.9%)
Adjustments to EBITDA:								
Other (income) expense (1)	(1,011)	448	(1,459)		(362)	1,736	(2,098)	
Foreign exchange loss (2)	190	723	(533)		1,432	175	1,257	
Equity loss (income) of associates	1,195	(332)	1,527		3,658	(3,518)	7,176	
Share-based compensation (3)	1,024	735	289		1,792	1,873	(81)	
Fair value adjustments to inventory acquired (4)	423	—	423		995	—	995	
Transaction and project startup costs (recoveries) (5)	286	—	286		2,114	(22)	2,136	
Impairment of assets	—	—	—		—	295	(295)	
Adjusted EBITDA(I)	**$13,160**	**$ 7,034**	**$ 6,126**	87.1%	**$34,122**	**$66,607**	**$(32,485)**	(48.8%)
Adjusted EBITDA Margins(II)	*9.6%*	*4.8%*			*7.7%*	*13.8%*		
Less:								
Capital expenditures (6)	$7,793	$ 1,734	$ 6,059	349.4%	$19,629	$11,098	$ 8,531	76.9%
Free Cash Flow	**$ 5,367**	**$ 5,300**	**$ 67**	1.3%	**$14,493**	**$55,509**	**$(41,016)**	(73.9%)
Free Cash Flow Conversion (7)	40.8%	75.3%			42.5%	83.3%		
Revenue	$136,917	$146,627	$ (9,710)	(6.6%)	$442,877	$481,130	$(38,253)	(8.0%)
Sales volume (tonnes)	3,585	3,014	571	18.9%	9,826	9,925	(99)	(1.0%)

Notes:

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

(2) Represents unrealized and realized foreign exchange 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 SGTec's acquired 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 September 30, 2023, and the period since the acquisition, and had a $0.4 million and $1.0 million, respectively, impact on Net income (loss) in the three and nine months ended September 30, 2023.

(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 nine months ended September 30, 2023, Neo incurred $0.3 million and $0.9 million, respectively, of project costs related to the establishment of the Sintered Magnet manufacturing capability in Europe. Additionally, Neo also incurred total acquisition-related costs of $nil and $1.2 million, respectively, in the acquisition of SGTec for the three and nine months ended September 30, 2023. These costs have been included in selling, general and administrative expense in the condensed consolidated statements of profit or loss.

(6) Includes capital expenditures of $7.8 million for the three months ended September 30, 2023 and capital expenditures of $17.4 million and right-of-use assets of $2.2 million for the nine months ended September 30, 2023. Excludes 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].

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

($000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Net income (loss)	**$ 3,109**	**$ (3,812)**	**$ (7,262)**	**$ 33,580**
Adjustments to net income (loss):				
Foreign exchange loss [(1)]	190	723	1,432	175
Impairment of assets	—	—	—	295
Share-based compensation [(2)]	1,024	735	1,792	1,873
Transaction and project startup costs (recoveries) [(3)]	286	—	2,114	(22)
Other items included in other expense [(4)]	(897)	520	(278)	2,014
Fair value adjustments to inventory acquired [(5)]	423	—	995	—
Tax impact of the above items	(122)	(76)	(669)	(473)
Adjusted net income (loss) [(II)]	**$ 4,013**	**$ (1,910)**	**$ (1,876)**	**$ 37,442**
Attributable to:				
Equity holders of Neo	$ 3,973	$ (1,817)	$ (1,689)	$ 37,100
Non-controlling interest	$ 40	$ (93)	$ (187)	$ 342
Weighted average number of common shares outstanding:				
Basic	44,517,503	41,368,970	44,967,960	40,913,207
Diluted	45,019,400	41,368,970	44,967,960	41,353,231
Adjusted earnings (loss) per share attributable to equity holders of Neo:				
Basic	$ 0.09	$ (0.04)	$ (0.04)	$ 0.91
Diluted	$ 0.09	$ (0.04)	$ (0.04)	$ 0.90

Notes:

(1) Represents unrealized and realized foreign exchange losses 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 nine months ended September 30, 2023, Neo incurred $0.3 million and $0.9 million, respectively, of project costs related to the establishment of the Sintered Magnet manufacturing capability in Europe. Additionally, Neo also incurred total acquisition-related costs of $nil and $1.2 million, respectively, in the acquisition of SGTec for the three and nine months ended September 30, 2023. These costs have been included in selling, general and administrative expense 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 SGTec's acquired 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 September 30, 2023, and the period since the acquisition, and had a $0.4 million and $1.0 million, respectively, impact on Net income (loss) in the three and nine months ended September 30, 2023.

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 September 30,				Nine Months Ended September 30,			
	2023	**2022**	**Change**	%	**2023**	**2022**	**Change**	%
Operating income	**$2,911**	**$4,897**	**$ (1,986)**	(40.6%)	**$4,943**	**$27,995**	**$(23,052)**	(82.3%)
Net (loss) income	**$(2,513)**	**$2,255**	**$ (4,768)**	(211.4%)	**$(2,497)**	**$21,321**	**$(23,818)**	(111.7%)
Add back (deduct):								
Finance cost (income), net	22	(58)	80		(108)	(42)	(66)	
Income tax expense	4,649	1,924	2,725		4,815	7,630	(2,815)	
Depreciation and amortization included in cost of sales	1,026	859	167		2,864	2,640	224	
Depreciation and amortization included in operating expenses	1,293	1,365	(72)		4,042	4,265	(223)	
EBITDA	**4,477**	**6,345**	**(1,868)**	(29.4%)	**9,116**	**35,814**	**(26,698)**	(74.5%)
Other (income) expense [1]	(24)	(86)	62		103	(229)	332	
Foreign exchange loss [2]	735	1,193	(458)		124	2,832	(2,708)	
Equity loss (income) of associates	42	(332)	374		2,505	(3,518)	6,023	
Share-based compensation [3]	103	162	(59)		242	485	(243)	
Fair value adjustments to inventory acquired [4]	423	—	423		995	—	995	
Transaction and project startup costs [5]	286	—	286		2,114	—	2,114	
Adjusted EBITDA[I]	**$6,042**	**$7,282**	**$ (1,240)**	(17.0%)	**$15,199**	**$35,384**	**$(20,185)**	(57.0%)
Adjusted EBITDA Margins[II]	11.1%	10.8%			9.6%	16.1%		
Revenue	$54,414	$67,402	$(12,988)	(19.3%)	$158,908	$219,828	$(60,920)	(27.7%)
Sales volume (tonnes)	1,389	1,097	292	26.6%	3,413	3,620	(207)	(5.7%)

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 SGTec's acquired 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 September 30, 2023, and the period since the acquisition, and had a $0.4 million and $1.0 million, respectively, impact on Net (loss) income in the three and nine months ended September 30, 2023.

(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 nine months ended September 30, 2023, Neo incurred $0.3 million and $0.9 million, respectively, of project costs related to the establishment of the Sintered Magnet manufacturing capability in Europe. Additionally, Neo also incurred total acquisition-related costs of $nil and $1.2 million, respectively, in the acquisition of SGTec for the three and nine months ended September 30, 2023. These costs have been included in selling, general and administrative expense in the condensed consolidated statements of profit or loss.

8.2 Chemicals & Oxides

($000s, except volume)	**Three Months Ended September 30,**				**Nine Months Ended September 30,**			
	2023	**2022**	**Change**	%	**2023**	**2022**	**Change**	%
Operating income (loss)	**$6,068**	**$(5,298)**	**$ 11,366**	214.5%	**$1,466**	**$21,324**	**$(19,858)**	(93.1%)
Net income (loss)	**$7,440**	**$(4,342)**	**$ 11,782**	271.3%	**$1,250**	**$19,312**	**$(18,062)**	(93.5%)
Add back (deduct):								
Finance (income) cost, net	(166)	177	(343)		(325)	470	(795)	
Income tax (recovery) expense	(1,876)	(312)	(1,564)		(1,243)	2,874	(4,117)	
Depreciation and amortization included in cost of sales	1,256	962	294		3,526	2,983	543	
Depreciation and amortization included in operating expenses	304	284	20		845	851	(6)	
EBITDA	**6,958**	**(3,231)**	**10,189**	315.4%	**4,053**	**26,490**	**(22,437)**	(84.7%)
Other (income) expense (1)	(51)	397	(448)		479	1,060	(581)	
Foreign exchange (gain) loss (2)	(433)	(1,217)	784		151	(2,391)	2,542	
Equity loss of associates	1,153	—	1,153		1,153	—	1,153	
Share-based compensation (3)	110	188	(78)		252	551	(299)	
Adjusted EBITDA(I)	**$7,737**	**$(3,863)**	**$ 11,600**	300.3%	**$6,088**	**$25,710**	**$(19,622)**	(76.3%)
Adjusted EBITDA Margins(II)	13.4%	(7.4%)			3.4%	13.6%		
Revenue	$57,812	$52,231	$ 5,581	10.7%	$180,377	$189,244	$ (8,867)	(4.7%)
Sales volume (tonnes)	2,137	1,807	330	18.3%	6,174	6,002	172	2.9%

Notes:

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

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

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

8.3 Rare Metals

($000s, except volume)	**Three Months Ended September 30,**				**Nine Months Ended September 30,**			
	2023	**2022**	**Change**	%	**2023**	**2022**	**Change**	%
Operating income	**$2,749**	**$5,199**	**$ (2,450)**	(47.1%)	**$25,267**	**$13,186**	**$ 12,081**	91.6%
Net income	**$3,072**	**$2,598**	**$ 474**	18.2%	**$9,204**	**$6,928**	**$ 2,276**	32.9%
Add back (deduct):								
Finance (income) cost, net	(583)	1,308	(1,891)		8,268	2,669	5,599	
Income tax expense	1,355	2,148	(793)		8,139	5,220	2,919	
Depreciation and amortization included in cost of sales	392	458	(66)		820	1,422	(602)	
Depreciation and amortization included in operating expenses	113	75	38		234	218	16	
EBITDA	**4,349**	**6,587**	**(2,238)**	(34.0%)	**26,665**	**16,457**	**10,208**	62.0%
Other (income) expense (1)	(25)	137	(162)		(33)	905	(938)	
Foreign exchange gain (2)	(1,071)	(993)	(78)		(313)	(2,536)	2,223	
Share-based compensation (3)	40	66	(26)		88	191	(103)	
Impairment of assets	—	—	—		—	295	(295)	
Adjusted EBITDA(I)	**$3,293**	**$5,797**	**$ (2,504)**	(43.2%)	**$26,407**	**$15,312**	**$ 11,095**	72.5%
Adjusted EBITDA Margins(II)	12.7%	18.4%			25.2%	17.7%		
Revenue	$25,976	$31,567	$ (5,591)	(17.7%)	$104,877	$86,521	$ 18,356	21.2%
Sales volume (tonnes)	79	145	(66)	(45.5%)	259	402	(143)	(35.6%)

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 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	**$136,917**	**$170,430**	**$135,530**	**$159,168**	**$146,627**	**$168,221**	**$166,282**	**$153,414**
Net income (loss) attributable to equity holders of Neo	**3,069**	**310**	**(10,454)**	**(7,291)**	**(3,719)**	**14,607**	**22,350**	**6,735**
Basic EPS	0.07	0.01	(0.23)	(0.16)	(0.09)	0.36	0.55	0.17
Diluted EPS	0.07	0.01	(0.23)	(0.16)	(0.09)	0.36	0.54	0.17
Operating income (loss)	**6,959**	**13,675**	**(3,997)**	**6,727**	**2,239**	**20,963**	**28,685**	**12,726**
Net income (loss)	**3,109**	**329**	**(10,700)**	**(7,162)**	**(3,812)**	**14,691**	**22,701**	**7,263**
Add back (deduct):								
Finance (income) cost, net	(648)	4,085	4,012	11,116	1,437	2,292	414	1,523
Income tax expense (recovery)	4,124	5,988	1,610	2,022	3,775	6,001	5,995	(702)
Depreciation and amortization included in cost of sales	2,674	2,368	2,168	2,361	2,279	2,388	2,378	2,405
Depreciation and amortization included in operating expenses	1,794	1,814	1,766	1,784	1,781	1,853	1,896	1,891
EBITDA	**11,053**	**14,584**	**(1,144)**	**10,121**	**5,460**	**27,225**	**33,384**	**12,380**
Add back:								
Other (income) expense (1)	(1,011)	171	478	492	448	855	433	4,351
Foreign exchange loss (gain) (2)	190	662	580	(476)	723	(959)	411	2,544
Equity loss (income) of associates	1,195	2,440	23	735	(332)	(1,917)	(1,269)	(2,253)
Share and value-based compensation (3)	1,024	(82)	850	610	735	957	181	1,765
Impairment of assets (4)	—	—	—	938	—	295	—	121
Fair value adjustments to inventory acquired (5)	423	572	—	—	—	—	—	—
Transaction and project startup costs (recoveries) (6)	286	1,828	—	—	—	—	(22)	744
Adjusted EBITDA(I)	**$13,160**	**$20,175**	**$ 787**	**$12,420**	**$ 7,034**	**$26,456**	**$33,118**	**$19,652**
Adjusted EBITDA Margins(II)	*9.6%*	*11.8%*	*0.6%*	*7.8%*	*4.8%*	*15.7%*	*19.9%*	*12.8%*

Notes:

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

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

(3) Represents share-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 SGTec's acquired 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 September 30, 2023, and the period since the acquisition, and had a $0.4 million and $1.0 million, respectively, impact on Net income (loss) in the three and nine months ended September 30, 2023.

(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 nine months ended September 30, 2023, Neo incurred $0.3 million and $0.9 million, respectively, of project costs related to the establishment of the Sintered Magnet manufacturing capability in Europe. Additionally, Neo also incurred total acquisition-related costs of $nil and $1.2 million, respectively, in the acquisition of SGTec for the three and nine months ended September 30, 2023. These costs have been included in selling, general and administrative expense in the condensed consolidated statements of profit or loss.

10. Liquidity and Capital Resources

Nine months ended September 30, 2023 compared to nine months ended September 30, 2022:

	Nine Months Ended September 30,	
($000s)	**2023**	**2022**
Cash flow:		
Cash provided by (used in) operating activities	$ 59,013	$ (3,853)
Cash used in investing activities	(35,528)	(11,098)
Cash (used in) provided by financing activities	(54,630)	53,334

Financial position - as at	**September 30, 2023**	**December 31, 2022**
Cash and cash equivalents	$ 113,419	$ 147,491
Restricted cash	3,207	1,179
Property, plant and equipment	96,032	75,767
Total assets	631,527	676,460
Bank advances and other short-term debt	—	17,288
Current portion of long-term debt	2,406	747
Long-term debt	22,844	29,885

As at September 30, 2023, Neo had cash and cash equivalents of $113.4 million plus restricted cash of $3.2 million, compared to $147.5 million plus $1.2 million as at December 31, 2022. For the nine months ended September 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 $4.8 million in NNSR and GQD Special Materials (Thailand) Co., Ltd. ("**GQD**"), paid $10.1 million in dividends to its shareholders and made NCIB purchases in the amount of $16.7 million. Neo also repaid $17.3 million of its bank advances and other short-term debt, $7.0 million of debt facility at Silmet and $1.3 million of term loan facilities at SGTec in the nine months ended September 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

- $32.1 million from operations before net change in working capital, income taxes paid and net interest received;
- $37.4 million net change in working capital.

Outflows

- $10.1 million of dividends paid to shareholders;
- $16.7 million of shares repurchased under NCIB
- $1.6 million of lease payments;
- $17.3 million repayment on bank advances and other short-term debt;
- $7.0 million repayment of Silmet's debt facility;
- $1.3 million repayment of SGTec's term loan facilities;
- $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);
- $4.8 million investment in associates;
- $17.4 million of other capital spending; and
- $11.3 million of income taxes paid;

Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities was $59.0 million for the nine months ended September 30, 2023, compared to net cash used in operating activities of $3.9 million for the nine months ended September 30, 2022.

The $37.4 million net change in working capital for the nine months ended September 30, 2023, was primarily attributable to lower inventory driven by declining rare earth prices net of C&O holding higher levels of finished goods in preparation for the upgrade, expansion and relocation of its environmental emissions catalyst production facility. This decrease, coupled with decrease in accounts receivables, was partially offset by a decrease in accounts payable and other accrued charges.

Cash Used in Investing Activities

For the nine months ended September 30, 2023, net cash used in investing activities was $35.5 million, compared to $11.1 million for the nine months ended September 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 restricted cash of $2.0 million (represents a portion of the proceeds held in escrow for the acquisition of SGTec), a $4.8 million investment in associates, $8.9 million (including capitalized interest of $2.0 million relating to the EDC facility) for NAMCO relocation, $2.6 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 nine months ended September 30, 2023 was $54.6 million, compared to $53.3 million net cash provided by financing activities for the nine months ended September 30, 2022. For the nine months ended September 30, 2023, Neo repaid $17.3 million of its bank advances and other short-term debt, repaid $7.0 million of its debt facility at Silmet, $1.3 million of term loan facilities at SGTec, spent $16.7 million in shares repurchased, distributed $10.1 million in dividends to its shareholders, and spent $1.6 million in lease payments. In the nine months ended September 30, 2022, Neo received $47.7 million of proceeds from issuance of common shares from treasury, drew $10.5 million from its credit facilities, borrowed $7.3 million from its Silmet's debt facility, distributed $9.9 million in dividends to its shareholders, and spent $1.1 million in lease payments.

($000s)

Cash and cash equivalents by Country		**September 30, 2023**		**December 31, 2022**
China (including Hong Kong)	$	53,079	$	55,526
Estonia		4,489		5,709
United States		6,486		4,524
Canada		6,696		47,440
Japan		4,845		1,238
United Kingdom		5,102		6,937
Germany		13,719		10,216
Singapore		4,396		6,867
Barbados		1,045		721
Thailand		12,855		7,444
Cayman Islands		33		28
Other		674		842
Total cash and cash equivalents	**$**	**113,419**	**$**	**147,492**

Approximately $16.2 million of cash on hand held by Neo's foreign operating subsidiaries relates 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, borrowings 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 is generally 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	$ —	$ —	$ —	$ —	—
Accounts payable and other accrued charges	70,303	—	—	—	70,303
Derivative liabilities (1)	36,492	1,858	—	—	38,350
EDC credit facility (2)	2,152	4,315	17,293	—	23,760
Barclays bank loan facilities (3)	254	1,236	—	—	1,490
Provisions (4)	1,200	24,967	—	—	26,167
Lease obligations (5)	1,500	1,961	208	1,090	4,759
Other liabilities (6)	671	3,044	17	264	3,996
Total	**$ 112,572**	**$ 37,381**	**$ 17,518**	**$ 1,354**	**$ 168,825**

__**Notes:**__

(1) Represents the fair value of the put options on shares of the remaining shareholders of Buss & Buss and SGTec.

(2) Represents the first tranche of the EDC credit facility term loan.

(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, and, b) an estimated damages provision related to legal proceedings (see "*Other Expenditures and Legal Contingencies*").

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

(6) Primarily represents the estimated contingent consideration to be paid to the selling shareholders in accordance with their seller percentage in the event that SGTec's average adjusted EBITDA during the period April 1, 2023 to March 31, 2026 is greater than 2 million GBP.

As at September 30, 2023, Neo had $113.4 million of cash and cash equivalents and approximately $3.2 million of restricted cash. The restricted cash is held as collateral against Letters of Credit. Neo believes that the remainder of its cash, in addition to cash from operating activities, is available (or sufficient) to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months. Neo considers cash to be "available" to the extent it can be utilized in operating activities, for capital expenditures, for intercompany loans or for repatriation. Neo also maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

12. 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 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 nine months ended September 30, 2023, Neo repurchased and canceled 2,394,170 shares for $15.5 million, and 2,585,940 shares for $16.7 million, respectively. There were no shares repurchased for the three and nine months ended September 30, 2022.

Between October 1 and November 9, 2023, Neo repurchased and canceled, 202,700 shares for a total consideration of $1.1 million.

13. Subsequent Event

Dividends payable to equity holders of Neo

On November 9, 2023, the Board of Directors declared a quarterly dividend of Cdn $0.10 per common share payable in cash on December 28, 2023, to common shareholders of record at the close of business on December 18, 2023.

14. Off-Balance Sheet Arrangements

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

15. Significant Management Judgments 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 liabilities, 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 – 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 combinations, 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, Magnequench (Tianjin) Co. Ltd. ('**MQTJ**") will supply Magnequench Powders to Toda Magnequench Magnetic Materials Co. Ltd. ("**TMT**") to produce rare earth magnetic compounds. MQTJ will then purchase these compounds back from TMT in its normal course of business. Ganzhou Keli Rare Earth New Material Co., Ltd. ("**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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Purchase of goods and services from associates:				
TMT	$ 2,072	$ 1,453	$ 5,724	$ 2,528
Keli	11,789	20,514	24,102	65,318
GQD	233	164	3,330	12,933
Sales of goods and services to associates:				
TMT	2,705	1,283	8,651	6,668
Keli	—	—	—	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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Sale of goods to Toda	$ 860	$ 148	$ 2,209	$ 1,302
Purchase of goods from Qian Dong	97	6	3,111	1,645

16.3 Transactions with other related parties

Neo, through one of its subsidiaries in China, Magnequench Magnetics (Chu Zhou) Co. Ltd. ("**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 nine months ended September 30, 2023, sales to Atatsu were nominal and $0.1 million, respectively. For the three and nine months ended September 30, 2022, sales to Atatsu were $0.7 million and $1.0 million, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Sale of goods and services to related parties	$ 6,329	$ 2,745	$ 20,189	$ 12,346
Purchase of goods and services from related parties	14,191	22,137	36,267	82,424

	September 30, 2023	**December 31, 2022**
Trade balances:		
from related parties	$ 2,743	$ 2,374
due to related parties	(5,008)	(9,295)
Total	**$ (2,265)**	**$ (6,921)**

Directors and Key Management Compensation

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

Neo's short-term compensation expenses are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Directors	$ 141	$ 110	$ 475	$ 306
Key Executive Management	1,200	1,042	3,387	4,247
Total	**$ 1,341**	**$ 1,152**	**$ 3,862**	**$ 4,553**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Directors	$ (52)	$ (359)	$ 184	$ (833)
Key Executive Management	807	956	1,292	2,224
Total	**$ 755**	**$ 597**	**$ 1,476**	**$ 1,391**

17. Recent Accounting Pronouncements

17.1 Neo adopted the following accounting standards and amendments to accounting standards during the period ended September 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)

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.

17.2.2 Lack of Exchangeability (Amendments to IAS 21)

In August 2023, the IASB issued Lack of Exchangeability (Amendments to IAS 21 - The Effects of Changes in Foreign Exchange Rates) to provide guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. The amendments are effective for reporting periods beginning on or after 1 January 2025. 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 ("**DC&P**") 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 DC&P as of September 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 September 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 of September 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 September 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 as part of 2024 evaluation cycle.

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 September 30, 2023**
Common Shares	42,627,592
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 November 9, 2023 is 42,424,892.

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.