MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE YEAR ENDED DECEMBER 31, 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 accompanying audited consolidated financial statements and related notes thereto for the year ended December 31, 2023 available on Neo's website at www.neomaterials.com and on SEDAR+ at www.sedarplus.ca. Unless otherwise stated, references in this section to "Neo", "our", "we" or "Group", refer to Neo Performance Materials Inc. and its consolidated subsidiaries.

The financial results presented in this MD&A are prepared in accordance with International Financial Reporting Standards ("**IFRS**") 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 below, particularly under *"Risk Factors"*. See *"Forward-Looking Information"*.

The discussion and analysis in this MD&A are based upon information available to management as of March 14, 2024. 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, 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.sedarplus.ca.

The forward-looking information is only provided as of the date of this MD&A, March 14, 2024, 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 1,910 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 completed its acquisition 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.

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)	Year Ended December 31,			Three Months Ended December 31,		
	2023	2022	2021	2023	2022	2021
Revenue						
Magnequench	$ 213,735	$ 277,412	$ 263,753	$ 54,827	$ 57,584	$ 70,897
C&O	235,929	248,011	212,711	55,552	58,767	60,389
Rare Metals	124,601	130,386	83,604	19,724	43,865	27,296
Corporate / Eliminations	(2,720)	(15,511)	(20,817)	(1,435)	(1,048)	(5,168)
Consolidated Revenue	**$ 571,545**	**$ 640,298**	**$ 539,251**	**$ 128,668**	**$ 159,168**	**$ 153,414**
Operating Income (loss)						
Magnequench	$ 7,618	$ 30,538	$ 38,413	$ 2,675	$ 2,543	$ 6,608
C&O	4,088	22,176	37,391	2,622	852	10,207
Rare Metals	19,670	20,978	6,578	(5,597)	7,792	2,410
Corporate / Eliminations	(20,209)	(15,078)	(22,495)	(5,170)	(4,460)	(6,499)
Consolidated Operating Income (Loss)	**$ 11,167**	**$ 58,614**	**$ 59,887**	**$ (5,470)**	**$ 6,727**	**$ 12,726**
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") (1)						
Magnequench	$ 21,149	$ 40,172	$ 48,009	$ 5,950	$ 4,788	$ 9,137
C&O	9,306	28,324	41,512	3,218	2,614	11,800
Rare Metals	24,207	24,307	9,154	(2,200)	8,995	3,074
Corporate / Eliminations	(17,443)	(13,776)	(16,760)	(3,871)	(3,977)	(4,359)
Consolidated Adjusted EBITDA	**$ 37,219**	**$ 79,027**	**$ 81,915**	**$ 3,097**	**$ 12,420**	**$ 19,652**
Net (Loss) Income	**$ (8,391)**	**$ 26,418**	**$ 36,043**	**$ (1,129)**	**$ (7,162)**	**$ 7,263**
Attributable to:						
Equity holders of Neo	(8,442)	25,947	35,177	(1,367)	(7,291)	6,735
Non-controlling interest	51	471	866	238	129	528
(Loss) Earnings per share attributable to equity holders of Neo						
Basic	$ (0.19)	$ 0.62	$ 0.92	$ (0.03)	$ (0.16)	$ 0.17
Diluted	$ (0.19)	$ 0.61	$ 0.91	$ (0.03)	$ (0.16)	$ 0.17
Adjusted Net (Loss) Income (2)	**$ (975)**	**$ 31,756**	**$ 55,040**	**$ 901**	**$ (5,686)**	**$ 16,062**
Attributable to:						
Equity holders of Neo	(1,026)	31,285	54,174	663	(5,815)	15,534
Non-controlling interest	51	471	866	238	129	528
Adjusted (loss) earnings per share attributable to equity holders of Neo (2):						
Basic	$ (0.02)	$ 0.75	$ 1.42	$ 0.02	$ (0.13)	$ 0.39
Diluted	$ (0.02)	$ 0.74	$ 1.41	$ 0.02	$ (0.13)	$ 0.39
Capital expenditures excluding business combination (3)	$ 43,961	$ 17,470	$ 9,464	$ 24,332	$ 6,372	$ 2,833
Cash taxes paid	$ 13,410	$ 12,352	$ 9,365	$ 2,089	$ 3,505	$ 2,333
Dividends paid to shareholders	$ 13,396	$ 13,401	$ 12,773	$ 3,335	$ 3,540	$ 3,544
Repurchase of common shares under Normal Course Issuer Bid	$ 19,893	$ —	$ 37	$ 3,209	$ —	$ —

	December 31		
	2023	2022	2021
Cash and cash equivalents	$ 86,895	$ 147,491	$ 89,037
Bank advances & other short-term debt	$ —	$ 17,288	$ 6,502
Current portion & long-term debt	$ 25,331	$ 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 $24.3 million for the three months ended December 31, 2023. For the year ended December 31, 2023, the amount comprised capital expenditures of $41.7 million and right-of-use assets of $2.2 million..

Highlights for the year and three months ended December 31, 2023

Consolidated Results

- For the year and three months ended December 31, 2023, consolidated revenues were $571.5 million and $128.7 million, respectively, compared to $640.3 million and $159.2 million, respectively, in the same periods of 2022; a decrease of $68.8 million or 10.7% compared to the year ended December 31, 2022 and a decrease of $30.5 million or 19.2% compared to the three months ended December 31, 2022. Operating income for the year and three months ended December 31, 2023 was $11.2 million and a loss of $5.5 million, respectively, a decrease of $47.4 million and $12.2 million, respectively, compared to the same periods of the prior year.

- After steady declines since the first quarter of 2022, rare earth prices for magnetic elements started to show signs of stability from May 2023 to November 2023, before starting another sharp decline in December 2023 which continued into early March 2024. Prices for rare earth magnetic elements neodymium ("**Nd**") and praseodymium ("**Pr**") declined by 30%-40% since December 2022 and approximately 10% during the fourth quarter of 2023. As a result of these steep price declines, margins have been negatively impacted due to unfavourable 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 unfavourable lead-lag and allow the rare earth separation business to deliver improved margin performance. See further discussion on impact of volatility of rare earth prices in section 5.4 under the heading *"Impact of Rare Earth Prices on Margin and Mitigating Actions"*.

- For the three months ended December 31, 2023, Magnequench segment volume was up compared to the same period of the prior year as the business continues to grow magnet volumes and increase spot sales in China. C&O volumes were down compared to the same period of the prior year as environmental emissions catalyst customers pushed out purchases to manage year-end inventory levels. Rare Metals saw weak fourth quarter hafnium volumes with legacy contracts ending and nominal spot sales volume in the quarter. Magnetic end markets were soft throughout 2023 creating headwinds in Magnequench and the C&O separation business. However, all segments were able to deliver strong volumes for the year in targeted high margin products which partially offset these challenging end market dynamics; these products included magnets, environmentally protective water treatment solutions, medical grade gadolinium, high purity dysprosium, and hafnium used in superalloys. These positive gains were more than offset by the soft magnetic market and resulting decline in rare earth prices for magnetic elements.

- Adjusted EBITDA[1] for the year and three months ended December 31, 2023 was $37.2 million and $3.1 million, respectively, a decrease of $41.8 million and $9.3 million, respectively, compared to the same periods of the prior year. Despite a weak fourth quarter, Rare Metals delivered another strong year and maintains a healthy order book headed into 2024. The primary driver causing the year-over-year decline in Adjusted EBITDA[1] performance was lead-lag in C&O and Magnequench due to the changes in rare earth prices.

- 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 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 year and three months ended December 31, 2023, revenues in the Magnequench segment were $213.7 million and $54.8 million, respectively, compared to $277.4 million and $57.6 million, respectively, in the same periods of 2022; decreases of $63.7 million and $2.8 million, respectively. Operating income in the Magnequench segment for the year and three months ended December 31, 2023 was $7.6 million and $2.7 million, respectively, a decrease of $22.9 million and an increase of $0.1 million, respectively, when compared to the year and three months ended December 31, 2022. Adjusted EBITDA[1] in the Magnequench segment for the year and three months ended December 31, 2023, was $21.1 million and $6.0 million compared to $40.2 million and $4.8 million in the year and three months ended December 31, 2022; a decrease of $19.0 million and an increase of $1.2 million, respectively.

- For the year ended December 31, 2023, volumes in the Magnequench segment saw a decline of 2.4% compared to the same period in 2022. Despite challenging market dynamics, the magnet business continued its strong growth trajectory; however, this was more than offset by declining volumes in the magnetic powder business which was negatively impacted by demand softness across the industry. The Magnequench business faced several headwinds in 2023, most notable was the economic slowdown, primarily in China, which impacted demand for non-automotive applications. In addition, volumes were negatively impacted by declines in legacy programs supporting electronic power steering applications. These demand dynamics also contributed to the general price weakness of rare earth magnetic elements. However, in this challenging market environment, Magnequench was able to deliver growth in its high margin magnet business through increasing business with new customers, in-sourcing magnet production, as well as the acquisition of UK magnet producer SGTec in April 2023. For the three months ended December 31, 2023, volumes in the Magnequench segment saw an increase of 7.8% compared to the same period in 2022. Growth from increased China spot and magnet volumes (including the acquisition of SGTec); as well as recovery of traction motor volumes were partially offset by weakness in the legacy powder business.

- For the year ended December 31, 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 which delivered notable cost savings; however, as rare earth magnetic prices declined, Magnequench experienced a negative lead-lag throughout most 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. See further discussion in section 5.4 under the heading *"Impact of Rare Earth Prices on Margins and Mitigating Actions"*.

- 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 has adapted its product offering in a dynamic market environment, taking actions such as insourcing magnet production, and developing cost competitive offerings for targeted markets. 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. With this acquisition, there are added new capabilities and 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 year and three months ended December 31, 2023 revenues in the C&O segment were $235.9 million and $55.6 million, respectively, compared to $248.0 million and $58.8 million, respectively, in the same periods of 2022; decreases of $12.1 million and $3.2 million, respectively. Operating income in the C&O segment for the year and three months ended December 31, 2023 was $4.1 million and $2.6 million, respectively, compared to operating incomes of $22.2 million and $0.9 million in the same periods of 2022. Adjusted EBITDA(1) was $9.3 million and $3.2 million for the year and three months ended December 31, 2023; a decrease of $19.0 million and an increase of $0.6 million, respectively, when compared to the same periods of 2022.

- For the year ended December 31, 2023, mixed end market dynamics and rare earth pricing headwinds posed a challenge to C&O business throughout the year. Medical grade gadolinium used in patient imaging and high purity dysprosium used in multi-layer ceramic capacitors ("**MLCC**") delivered stable volumes and margins for the business. The environmental emissions catalyst business saw a marginal decline in volumes due to a soft fourth quarter of 2023 driven by customers managing year-end inventory levels. The environmental protective water treatment solutions business continued to gain traction delivering increased volumes and expanding margins throughout 2023. However, market softness in magnetic elements was the primary headwind for the business. Specifically, rapid declines in rare earth prices resulted in unfavourable lead-lag as C&O processed raw materials purchased three to five months earlier at higher raw material input costs. This unfavourable lead-lag negatively impacts C&O rare earth separation margins. See further discussion in section 5.4 under the heading *"Impact of Rare Earth Prices on Margins and Mitigating Actions"*. As prices stabilize, C&O expects to deliver improved margins from rare earth separation.

- The C&O business is nearing completion on the relocation of its Neo Jia Hua Advanced Materials (Zibo) Co., Ltd. ("**NAMCO**") facility in China. The new facility will have additional capacity for its environmental emissions catalysts business including capacity for new products under development. It will also benefit from an improved manufacturing layout, automation, and environmental management systems. See further discussion in section 5 under the heading *"Update on Selected Strategic Initiatives"*.

Rare Metals Segment

- For the year and three months ended December 31, 2023, revenues in the Rare Metals segment were $124.6 million and $19.7 million, respectively, compared to $130.4 million and $43.9 million, respectively, in the same periods of 2022; decreases $5.8 million and $24.1 million, respectively. Operating income for the year and three months ended December 31, 2023, was $19.7 million and a loss of $5.6 million, respectively, compared to operating income of $21.0 million and $7.8 million, respectively, in the same periods of 2022; a decrease of $1.3 million and of $13.4 million, respectively. Adjusted EBITDA(1) for the year and three months ended December 31, 2023 was $24.2 million and a loss of $2.2 million, respectively, compared to $24.3 million and $9.0 million in the same periods of 2022; an increase of $0.1 million and a decrease of $11.2 million, respectively.

- For the year ended December 31, 2023, the Rare Metals segment delivered solid earnings driven by strength in hafnium pricing and demand. The upward trend in hafnium prices since the fourth quarter of 2021 has been driven by demand for memory chips and superalloys. Hafnium volumes were weak in the fourth quarter of 2023 with lower priced legacy contracts ending and minimal high priced spot sales volume. In the first half of 2023, the business utilized historical lower cost inventory to capitalize on higher priced spot sales opportunities. However, in the fourth quarter of 2023, with nominal volumes from spot sales, margins were down as the business satisfied the remaining portion of legacy priced contracts with inventory at current costs. With that said, Rare Metals has a healthy order book for 2024 with contracted hafnium volumes at strong pricing and inventory on hand to fulfill the demand outlook. The fundamentals of the hafnium business remain strong with prices well above historical averages. 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, diversifying its total end-market exposure, and directing the sales pipeline toward these more profitable end products that require higher purity and more demanding specifications. In addition, the business has been evaluating plant effectiveness with the goal of refocusing on higher value manufacturing operations. In the fourth quarter of 2023, the Rare Metals business reached a significant milestone in its manufacturing strategy with its plant in Sillamäe, Estonia, shifting focus on downstream, value-add operations, by halting the energy-intensive hydrometallurgical processing of niobium and tantalum bearing ores. Going forward, future products will be derived from oxides and recycled materials, which will increase sourcing optionality, reduce working capital, simplify the manufacturing process, and improve the environmental footprint of the plant. In executing this operational transformation, the Rare Metals business incurred one-time charges to its fourth quarter of 2023 including $2.8 million non-cash charges for impairment of assets and $0.6 million of employee restructuring costs.

- Prices for gallium outside of China continued their upward trend during the fourth quarter amidst the Government of China export restrictions announced in August 2023. Outside of China gallium demand continues to exceed raw material 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 business continues to work through sourcing optionality for additional gallium waste streams including expanding tolling arrangements to ensure that the gallium produced, used, and recycled stays within the Rare Metals supply chain.

Cash and Other Highlights for the year ended December 31, 2023

- Neo's balance sheet remains strong, underscoring its sound financial position. As at December 31, 2023, Neo had $86.9 million in cash, $3.3 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, resulting in net cash of $64.9 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 year ended December 31, 2023. Neo also funded the $14.4 million acquisition of SGTec on April 19, 2023 with cash on hand. A portion of the purchase consideration remains held in escrow at the end of December 31, 2023, but was subsequently paid out on January 3, 2024.

- Cash from operating activities was $61.6 million for the year ended December 31, 2023. This strong cash generation was driven by working capital performance, specifically reductions in inventory as Neo continued to convert its higher-cost rare earth feedstock; as well as drive operational actions to reduce inventory levels. These inventory reductions were partially offset by strategic inventory held at year ended December 31, 2023 to support NAMCO relocation efforts and contracted hafnium volumes in 2024.

- Neo invested $41.7 million in capital expenditures (excluding $13.3 million relating to property, plant and equipment as part of the acquisition of SGTec) for the year ended December 31, 2023, compared to $17.5 million for the year ended December 31, 2022. Of which $25.3 million (including capitalized interest of $2.6 million relating to the Export Development Canada facility ("**EDC**")) was for NAMCO relocation, and $9.0 million was for the establishment of the rare earth magnet manufacturing 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 year ended December 31, 2023, Neo repurchased and cancelled 3,186,140 shares for $19.9 million. In addition, Neo paid dividends to its shareholders of $13.4 million for the year ended December 31, 2023.

4. Non-Operating Geopolitical Impacts

4.1 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 December 31, 2023, there has been no significant impact on Neo's operations.

Neo's facility in Sillamäe, Estonia, sources the majority of its rare earth feedstock from a Russian supplier. As of the date hereof, however, Neo has not had significant issues securing raw materials. With the assistance of two advisory firms, 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; this includes the addition of a new banking relationship in the first quarter of 2024 to support payment processing. 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.

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.

4.2 Potential Impact of China Export Restrictions

In January 2023, China announced revisions to the Catalogue of Technologies Prohibited or Restricted from Exporting. This update included the addition of rare earth magnet technology and was finalized and made effective on December 21, 2023. These export restrictions are anticipated to create incremental barriers for new companies attempting to enter the rare earth magnet industry outside of China.

Neo continues to monitor and actively manage potential implications of these export restrictions on Neo's rare earth magnet plant in Narva, Estonia which is currently under construction. With Neo's history and experience producing rare earth magnets both inside and outside of China, the management team is confident in its ability to continue to execute the project.

5. Update on Selected Strategic Initiatives

5.1 NAMCO Relocation

Neo is relocating its environmental emissions catalyst manufacturing facility in China, to a new facility in a dedicated industrial park in Zibo that features upgraded infrastructure, transportation, and wastewater treatment capabilities.

The engineering and construction for the new plant is 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 date for site commissioning in late March 2024. Subject to certain customer qualifications and approvals, NAMCO is expected to be running at full production levels in the second half of 2024. Neo estimates that the expansion, upgrade, and relocation of the NAMCO production facility will cost approximately $75.0 million, which is in line with the initial budget for the project. As at December 31, 2023, Neo had spent approximately $33.6 million (RMB 233.8 million before capitalized interest) since inception on the relocation efforts, including approximately $4.4 million to secure a 50 year land lease at the new site. The remaining cost to complete of $41.4 million is expected to be spent in 2024. In addition, responding to customers' requests, Neo is building an inventory bank to maintain continuity of supply of its environmental emissions catalyst products during this transition and re-qualification period.

To assist with the funding of the new manufacturing facility, in August 2022, Neo entered into a $75.0 million credit facility with EDC, advanced in three tranches of $25.0 million each to fund the anticipated relocation costs. As of December 31, 2023, $25.0 million had been drawn against this facility. On January 11, 2024, the second tranche of $25.0 million was drawn by Neo.

Neo does not intend to invest to relocate the light rare earths separation business in Zibo Jiahua Advanced Material Resources Co., Ltd. ("**ZAMR**").

5.2 Magnets Manufacturing Footprints in Europe

5.2.1 Rare Earth Magnet Plant in Europe

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 and generators for wind turbines. Magnet production, rare earth supply chain security, and diversification of supply are considered critical elements to all OEM's strategies on electric vehicles.

Neo is taking a phased approach to investing in magnet capacity levels in Europe with a Phase 1 expected to be able to produce 2,000 tonnes per year of magnet block capacity with the intent to expand in future years. The facility is located in Narva, Estonia, near Neo's existing rare earth separation and metal making facility in Sillamäe, Estonia. In order to further expand the business magnet production footprint, Neo may increase the capacity at the Narva facility to 5,000 tonnes and may expand into North America. The overall strategy includes considerations for rare earth supply, manufacturing and technical capabilities, competitiveness, customer commitments and funding sources (both company funded and government support).

On November 9, 2022, Neo announced it had been awarded a grant of up to $20.7 million (€18.7 million) from the Government of Estonia under Europe's Just Transition Fund ("**JTF**") for eligible project costs of up to $108.6 million (€98.0 million). The terms of the award are guided by the Government of Estonia's regulations on general conditions for granting and using funds from the operational program of the EU cohesion and internal security policy funds for the period 2021-2027 and related regulations. In addition, the terms of the award include 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.

As of December 31, 2023, the project is on budget and on schedule. Neo estimates that capital spent for Phase 1 of the new rare earth magnet facility in Europe will cost approximately $75.0 million (prior to JTF grant). As of December 31, 2023, Neo has capitalized approximately $9.0 million of expenditures; the majority of the remaining estimated cost to complete of $66.0 million is expected to be spent throughout 2024 and early 2025. In addition, Neo has spent approximately $1.4 million in out-of-pocket expenses on this project and has allocated significant internal resources for its preparation and execution.

5.2.2 Acquisition of SGTec

On April 19, 2023, Neo, through its subsidiary in the UK, Neo Venture Europe Limited ("**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 previous 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 was held in escrow, and was subsequently released on January 3, 2024 after certain terms and conditions were met. 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 a minimum of nil and a maximum of 5.4 million GBP, and the payment will be made in 2026.

SGTec continues to perform 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 Sourcing and Rare Earth Supply Strategy

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. In addition, Neo maintains a global network of recycled scrap metal suppliers supporting its Rare Metal product portfolio. Neo is committed to maintaining sourcing strategies tailored to its business units and end market which meets its global customers' growing demands for geographically diverse sources.

The C&O business is focused on its upstream sourcing strategy to secure continued access to rare earth material, inside and outside of China. C&O currently receives its rare earth feedstocks from numerous geographies including China, Myanmar, Russia, and the United States. The business is actively involved in geographically diverse resource projects to ensure adequate access to distributed global rare earth supplies for C&O's separation and value-add capabilities. Notable projects still in the exploration and development stage include:

- Neo North Star Resources Inc. ("**NNSR**") - A special-purpose entity jointly owned by Neo (44%) and three other third-party investors established to fund the purchase of the License and the exploration of the Sarfartoq Carbonatite Complex in southwest Greenland.

- 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 in AR3's Koppamurra rare earth project in Australia.

- Hastings Technology Metals - On June 12, 2023, Neo and Hastings Technology Metals signed a non-binding Heads of Agreement for rare earth concentrate offtake and downstream collaboration on Hastings Stage 1 of the Yangibana Rare Earths Project.

Magnequench is focused on flexibility within its sourcing strategy to ensure resilience across its supply chain. Magnequench sources magnetic rare earths oxides from third party critical minerals processors inside and outside of China. The business sources 5%-15% of its magnetic rare earth oxides internally from the C&O separation business in Sillamäe, Estonia providing a vertically integrated supply chain and further sourcing optionality for the business. Magnequench uses strategic joint venture partners to convert oxides to metal before putting it through the Magnequench production process. The business can also source metals directly providing further flexibility in its supply chain and reducing dependency on procuring oxides.

Rare Metals is focused on maintaining a diverse supply of low cost recycled scrap metal sources while continuing to shift focus from midstream to downstream operations to further diversify raw material supply and focus on value-add operations. In executing this strategy, the business achieved a major milestone in the fourth quarter of 2023 with closure of hydrometallurgical processing at its facility in Sillamäe, Estonia. This will allow the business to move from a single source of Niobium and Tantalum bearing ores to several sources of Niobium and Tantalum oxides and recycled materials. Consistent with the business' strategy, this change is expected to increase sourcing optionality while reducing working capital requirements.

5.4 Impact of Rare Earth Prices on Margins and Mitigating Actions

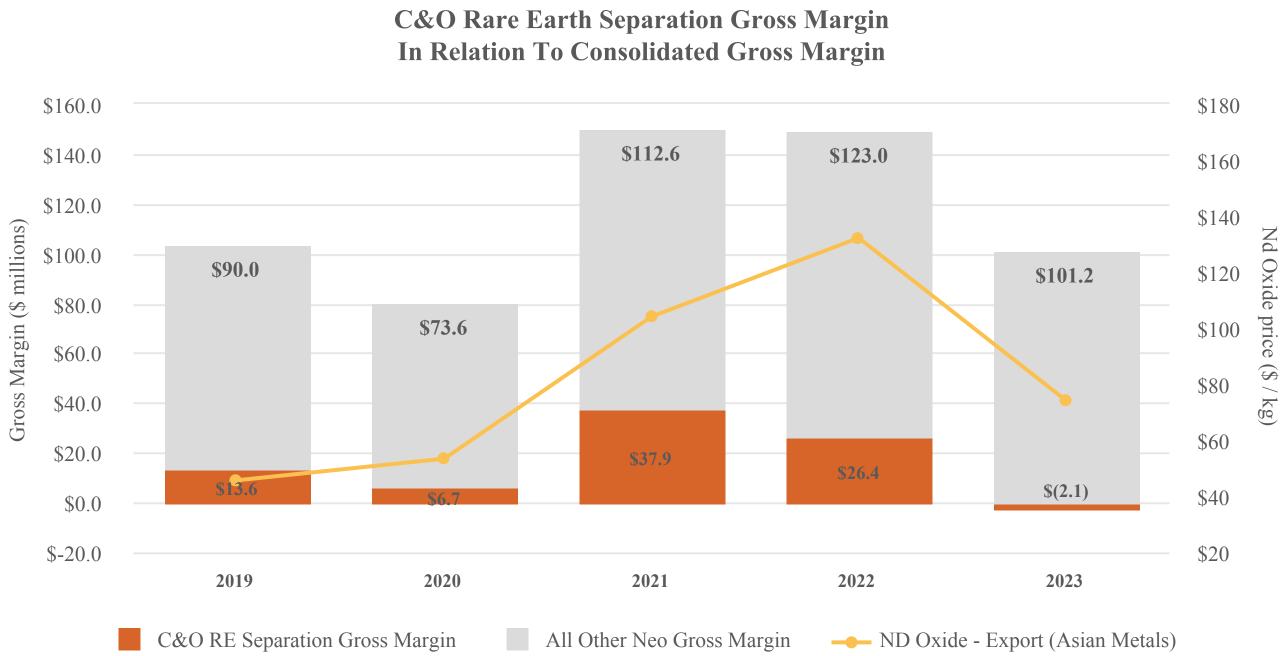
Both Magnequench and C&O have made strategic efforts to reduce the quarterly fluctuations in reported results related to rare earth price movements. These include encouraging more contracts to have pass-through provisions, matching more contract durations to overall inventory turns and increasing overall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

Rare earth prices, particularly the magnetic elements, have been quite volatile in recent years. This has resulted in higher margins due to favourable lead-lag when prices rise (due to processing and selling of lower cost inventory purchased months earlier), and lower margins due to unfavourable lead-lag when prices fall (due to processing and selling of higher cost inventory purchased months earlier).

For Magnequench, the largest two input costs in production are the commodity costs of Nd Oxide and Pr Oxide. With these inputs tied to market indexes, Magnequench contractually passes through any changes in the commodity costs to its end customers. Over 80% of Magnequench's magnetic powder volumes contain pass-through provisions, with the vast majority of contracts updating prices either monthly or quarterly. Thus, over the long 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 of high rare earth pricing volatility, 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 the C&O's 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, similar to Magnequench, in short-term periods of high rare earth pricing volatility, there may be impacts from changes in commodity prices that impact reported results. 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.

The following chart provides a breakout of C&O separation gross margins within total Neo's consolidated gross margins to highlight the correlation between C&O rare earth separation gross margins and the market index price of neodymium oxide, a key magnetic element.



6. Basis of Presentation

Neo Performance Materials Inc. ("**Neo**", the "**Company**" or the "**Group**") is a Canadian public company traded on the Toronto Stock Exchange ("**TSX**") and was incorporated on September 12, 2017 under the *Business Corporations Act* (Ontario). Neo's registered and head office is located at 121 King Street West, Suite 1740, Toronto, Ontario, Canada, M5H 3T9.

On September 16, 2022, Neo completed a bought deal treasury offering of common shares of Neo. Neo issued and sold from treasury an aggregate of 4,506,734 common shares at a price of Cdn. $15.00 per share for total gross proceeds to Neo of approximately Cdn. $67.6 million ("**treasury offering**").

On October 13, 2022, Hastings Technology Metals Ltd. ("**Hastings**") completed its binding Share Purchase Agreement with an affiliate of Oaktree to acquire 8,974,127 common shares of Neo at Cdn. $15.00 per share, for an aggregate purchase price of Cdn. $134.6 million.

As at December 31, 2023, Hastings holds 8,974,127 common shares of Neo representing 21.5% of the issued and outstanding common shares of Neo.

All intercompany transactions have been eliminated upon consolidation.

7. Factors Affecting Neo's Performance

Revenue

Neo produces advanced industrial materials that are essential inputs to high-technology, high-growth, and future-facing industries. Neo's products are indispensable inputs for many applications because of their unique physical and chemical properties. These include magnetic, catalytic, luminescent, electrochemical, thermal stability, and superconductive properties. Revenue is related to the demand of these end markets as well as the suitability and competitiveness of Neo's products.

Among the input materials utilized by Neo in the advanced industrial materials are rare earths. Greater than 80% of the world's rare earth sources are processed in China. Neo's Chinese manufacturing facilities in the C&O segment are subject to rare earth separation quotas in China (for rare earths concentrate mined in China) and the source rare earths used in the Magnequench business largely come from China. Restrictions in supply of these rare earths may impact revenues from magnetic powders. Neo's customers are global and a substantial amount of sales are generated in the same regions as Neo's manufacturing facilities, including China. Neo also sources rare earths from outside China including from Australia (via Malaysia), Myanmar, Vietnam, Russia, and the United States. Neo’s rare earth sourcing strategy forms one of the most globally diversified supply chains in the rare earth industry.

Input material prices are affected by supply and demand, as well as, policies and circumstances affecting supply from China, including the continued existence of unlicensed mining operations in China. Neo only purchases rare earth products from government licensed operations that must comply with all environmental regulations. Most of Neo's custom and standardized element sales are subject to current market pricing. Most of Neo's magnetic product sales and auto catalyst functional material sales have various forms of raw material pass-through agreements. These agreements generally have mechanisms tied to the pricing of the various input materials but are implemented over established time frames (monthly, quarterly, semi-annually, and annually). Accordingly, changes in input material pricing may have an impact on total revenue.

Cost of sales

Neo's cost of sales is comprised of raw materials, labour, processing costs, production overheads, and depreciation and amortization of productive assets.

The largest element of Neo's costs of sales is related to the input materials purchased from outside vendors and used in production. Changes in input material costs are either translated into selling prices of spot sales or incorporated into future selling prices via pass-through pricing mechanisms. There are timing delays between the incorporation of changing material costs and selling prices.

Outside of input material cost, Neo's largest costs include labour and benefits, chemical reagents, natural gas, electricity, maintenance, operating supplies, other plant overheads, and depreciation and amortization. Some of these costs are fixed and some are variable. For a portion of variable costs, adjustments to production levels are made over periods of time. Accordingly, as production volume increases or decreases, average cost per volume produced decreases or increases, respectively. Some of these costs are subject to volume fluctuations and are influenced by general economic conditions beyond Neo's control.

Selling, general and administrative ("SG&A") expense

SG&A expense consists primarily of personnel and related costs, including freight, legal, accounting and other professional service fees, and information technology costs.

Neo has a global sales force that are technically trained and fluent in the major languages of its customers. Neo has made significant investments in creating and maintaining this global sales force in geographic proximity to its major customers, which positions Neo to better leverage global demand, work closely with customers in product development efforts, and maximize pricing.

Share-based compensation

On September 12, 2017 OCM Neo Holdings (Cayman), L.P. ("**OCM**") formed Neo, a company incorporated in the province of Ontario, for the purpose of completing a Cayman Islands scheme of arrangement (the "**Arrangement**") with Neo Cayman Holdings Ltd. ("**Neo Cayman**") and a subsequent public offering of common shares of Neo. Neo Cayman's management incentive plan was assigned to Neo upon the completion of the Arrangement. This plan ("**Legacy Plan**") was comprised of Stock Options, Restricted Share Units ("**RSUs**"), Performance Stock Units ("**PSUs**") and Special Performance Stock Units ("**Special PSUs**") (collectively referred to as "**Stock Units**"). These Stock Units were granted under the Legacy Plan to directors, officers, and employees, and provide the right for these individuals to receive common shares of Neo or, in the case of the options, to purchase common shares of Neo. In connection with the Arrangement, Neo has undertaken to issue common shares of Neo underlying the Stock Units, applying the exchange ratio applied in connection with the Arrangement. The Special PSUs under the Legacy Plan and Additional PSUs under the LTIP, had all been cancelled as of December 31, 2018 as the liquidity event condition was not met. In 2021, Neo issued shares with respect to all outstanding RSUs and PSUs of the Legacy Pan (that had vested).

On October 13, 2017, Neo adopted a Stock Option Plan, in conjunction with the Initial Public Offering. On May 9, 2018, Neo adopted a long-term incentive plan (the "**LTIP**"). Neo granted Options under the Stock Option Plan, Deferred Share Units ("**DSUs**") under the Directors Share Unit Plan, and RSUs, PSUs and Additional PSUs under the LTIP.

On May 28, 2021, an omnibus long-term incentive plan (the "**Omnibus LTIP**") was approved by the Board and was subsequently approved by the shareholders at the Annual General and Special Meeting of Neo on June 29, 2021. Initial awards under the Omnibus LTIP were granted in September 2021.

During the year ended December 31, 2023, Neo granted 61,567 DSUs, 402,565 Options, 106,770 equity-settled RSUs, 266,890 equity-settled PSUs, 119,015 cash-settled RSUs, and 119,015 cash-settled PSUs under the Omnibus LTIP.

R&D

A critical success factor for Neo is to continually develop and evolve new products that meet customer's exacting specifications. This includes maintaining close relationships with key customers, understanding changes in market factors, and responding with innovative products both as improvements to existing applications and developing new applications and solutions.

Neo invests in R&D activities in response to customer needs as well as perceived market development. These expenses consist primarily of salaries, outside labour, materials, and equipment. R&D activities occur in both plant manufacturing locations and in dedicated R&D centres and are coordinated through global efforts within each business segment. Neo continues to dedicate resources to research and develop new applications for its products, provide technical solutions to its customers, and drive new process development. These factors allow for a more efficient and profitable use of Neo's products.

Finance costs, net

Neo’s finance costs are driven primarily by three factors: first, interest and finance costs on credit facilities; second re-measurement in each period of Neo’s derivative liability which is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary, Buss & Buss and SGTec; and third, the re-measurement of marketable securities at the end of each reporting period.

Neo has several interest-bearing credit facilities including a revolving loan in China and Germany in addition to term loans in Estonia, the UK and Canada. Finance costs are determined based on the amount of credit facilities outstanding and the variable interest rate on each facility. Interest expense relating to the EDC credit facility was capitalized capitalized into property, plant and equipment, where applicable.

Each period, Neo conducts a re-measurement of Neo's derivative liability, which is based on forecasts of future performance of Buss & Buss and SGTec, long term growth factors and changes in discount rates. Other re-measurement of marketable securities is based on third party market indices related to those investments.

Income tax expense

Neo's income tax expense is based on the income earned or loss incurred in each tax jurisdiction at the enacted or substantively enacted tax rate applicable to that income or loss.

In the ordinary course of business, there are many transactions for which the ultimate tax outcome is uncertain, and estimates are required for exposures related to examinations by tax authorities. Management reviews these transactions and exposures and records tax liabilities based on its assessment of many factors, including past experience and interpretations of tax law applied to the facts of each matter. The determination of tax liabilities is subjective and generally involves a significant amount of judgment. The final outcome may differ from estimates, and a change to these estimates could impact the income tax provision.

Neo recognizes deferred tax assets to the extent management believes it is probable that the related tax benefit amount will be realized. Management considers factors such as the reversal of taxable temporary differences, projected future taxable income, the character of the income tax asset, tax planning strategies, changes in tax laws and other factors. A change to these factors could impact the amount of deferred tax assets Neo recognizes.

Neo's effective income tax rate can vary significantly from quarter-to-quarter for various reasons, including the mix and volume of business in different tax jurisdictions, jurisdictions with tax holidays and tax incentives, and jurisdictions for which no deferred tax assets have been recognized because management believed it was not probable that future taxable profit would be available against which tax losses and deductible temporary differences could be utilized. Neo's effective income tax rate can also vary due to the impact of foreign exchange fluctuations, operating losses, changes in its provisions related to tax uncertainties and changes in management's assessment as to whether temporary differences arising from investments in subsidiaries will reverse in the foreseeable future.

8. Consolidated Results of Operations

Comparison of the year and three months ended December 31, 2023 to the year and three months ended December 31, 2022

($000s)	Year Ended December 31,		Three Months Ended December 31,	
	2023	**2022**	**2023**	**2022**
Revenue	571,545	640,298	128,668	159,168
Cost of sales				
Cost excluding depreciation and amortization	462,815	481,524	107,350	125,275
Depreciation and amortization	9,626	9,406	2,416	2,361
Gross profit	**99,104**	**149,368**	**18,902**	**31,532**
Expenses				
Selling, general and administrative	59,155	58,915	14,485	16,619
Share-based compensation	3,738	2,483	1,946	610
Depreciation and amortization	7,187	7,313	1,813	1,784
Research and development	16,144	20,810	4,415	4,854
Impairment of assets	1,713	1,233	1,713	938
	87,937	90,754	24,372	24,805
Operating income (loss)	**11,167**	**58,614**	**(5,470)**	**6,727**
Other income (expense)	3,138	(2,228)	2,776	(492)
Finance (cost) income, net	(6,707)	(15,259)	742	(11,116)
Foreign exchange (loss) gain	(1,428)	301	4	476
Income (loss) from operations before income taxes and equity income of associates	**6,170**	**41,428**	**(1,948)**	**(4,405)**
Income tax (expense) benefit	(11,683)	(17,793)	39	(2,022)
(Loss) income from operations before equity (loss) income of associates	**(5,513)**	**23,635**	**(1,909)**	**(6,427)**
Equity (loss) income of associates (net of income tax)	(2,878)	2,783	780	(735)
Net (loss) income	**$ (8,391)**	**$ 26,418**	**$ (1,129)**	**$ (7,162)**
Attributable to:				
Equity holders of Neo Performance Materials Inc.	(8,442)	$ 25,947	(1,367)	$ (7,291)
Non-controlling interest	51	471	238	129
	$ (8,391)	**$ 26,418**	**$ (1,129)**	**$ (7,162)**
(Loss) earnings per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic	$ (0.19)	$ 0.62	$ (0.03)	$ (0.16)
Diluted	$ (0.19)	$ 0.61	$ (0.03)	$ (0.16)

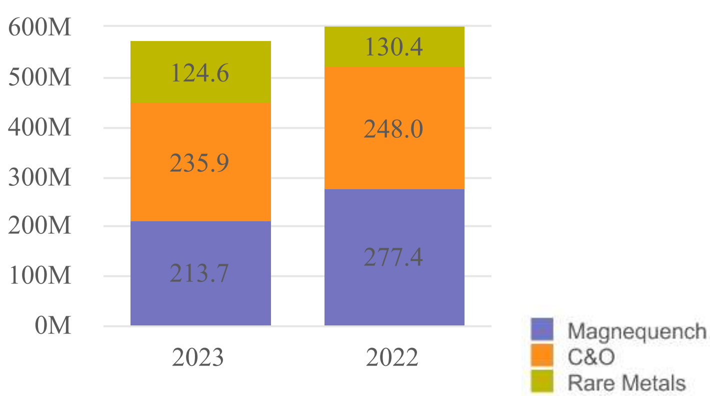
Revenue

Neo's consolidated revenue for the year and three months ended December 31, 2023, was $571.5 million and $128.7 million, respectively, compared to $640.3 million and $159.2 million, respectively, for the year and three months ended December 31, 2022, decreases of $68.8 million or 10.7% and $30.5 million or 19.2%, respectively.

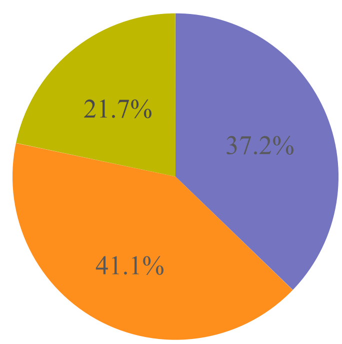
($000s)	**Year Ended December 31,**				**Three Months Ended December 31,**			
	2023	**2022**	**Change**	**%**	**2023**	**2022**	**Change**	**%**
Magnequench	$ 213,735	$ 277,412	$ (63,677)	(23.0%)	$ 54,827	$ 57,584	$ (2,757)	(4.8%)
C&O	235,929	248,011	(12,082)	(4.9%)	55,552	58,767	(3,215)	(5.5%)
Rare Metals	124,601	130,386	(5,785)	(4.4%)	19,724	43,865	(24,141)	(55.0%)
Eliminations	(2,720)	(15,511)	12,791	82.5%	(1,435)	(1,048)	(387)	36.9%
Consolidated Revenue	**$ 571,545**	**$ 640,298**	**$ (68,753)**	(10.7%)	**$ 128,668**	**$ 159,168**	**$ (30,500)**	(19.2%)

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

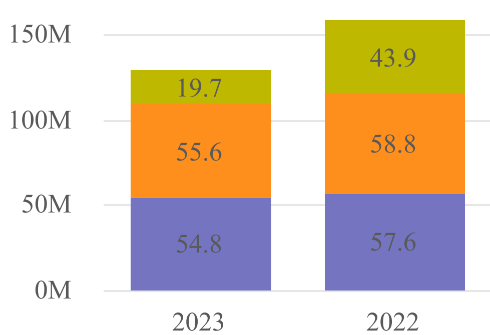
For the Year Ended December 31, 2023 and 2022



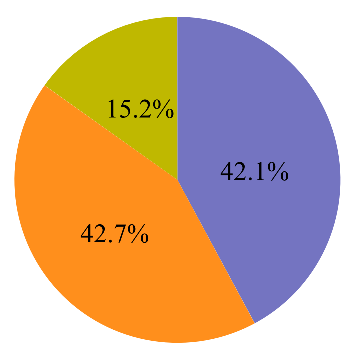
For the Year Ended December 31, 2023



For the Three Months Ended December 31, 2023 and 2022



For the Three Months Ended December 31 2023



Notes:

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

Inter-segment revenue for the year and three months ended December 31, 2023 was $2.7 million and $1.4 million, compared to $15.5 million and $1.0 million, respectively, for the year and three months ended December 31, 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 year ended December 31, 2023, was $462.8 million or 81.0% of revenue, compared to $481.5 million or 75.2% of revenue in the same period of the prior year. Consolidated cost of sales, excluding depreciation and amortization, for the three months ended December 31, 2023 was $107.4 million or 83.4% of revenue, compared to $125.3 million or 78.7% of revenue for the three months ended December 31, 2022. Cost of sales, excluding depreciation and amortization, as a percentage of revenue increased mainly due to decreased rare earth commodity prices, higher cost inventory on hand relative to current selling price, and product mix within the business segments.

Consolidated depreciation and amortization in cost of sales were $9.6 million and $2.4 million for the year and three months ended December 31, 2023, respectively, compared to $9.4 million and $2.4 million, respectively, for the year and three months ended December 31, 2022. Consolidated depreciation and amortization in cost of sales for the year ended increased due to the addition of SGTec's property, plant and equipment through acquisition and the accelerated amortization of certain property, plant and equipment in one of Neo's facilities in China. This was partly offset by lower carrying values of property, plant and equipment as some assets were fully depreciated.

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 year ended December 31, 2023, SG&A expense of $59.2 million was comparable to $58.9 million in the same period last year. For the three months ended December 31, 2023, SG&A expense of $14.5 million, was an improvement of $2.4 million when compared to three months ended December 31, 2022. Various cost savings initiatives implemented at Neo have more than offset the additional SG&A expense contributed by the acquisition of SGTec and $0.5 million of project costs related to the establishment of the rare earth magnet manufacturing capability in Europe.

For the year ended December 31, 2023, SG&A expense includes acquisition-related costs of $1.2 million for the acquisition of SGTec, as well as $1.4 million of project costs related to the establishment of the rare earth magnet manufacturing capability in Europe.

Share-based compensation

For the year and three months ended December 31, 2023, share-based compensation expense was $3.7 million and $1.9 million, respectively, compared to expenses of $2.5 million and $0.6 million, respectively, for the year and three months ended December 31, 2022.

Depreciation and amortization

Depreciation and amortization unrelated to production for the year and three months ended December 31, 2023 was $7.2 million and $1.8 million, respectively, comparable to $7.3 million and $1.8 million, respectively, for the year and three months ended December 31, 2022.

R&D

For the year and three months ended December 31, 2023, R&D expense was $16.1 million and $4.4 million, respectively, compared to $20.8 million and $4.9 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 $3.1 million and $2.8 million for the year and three months ended December 31, 2023, respectively, compared to other expense of $2.2 million and $0.5 million, respectively, for the year and three months ended December 31, 2022. Included in other income was a bargain purchase gain resulting from the acquisition of SGTec when the consideration paid was less than the fair value of the identifiable net assets, and a net gain of $0.7 million from the sale of Neo's property, plant and equipment at its subsidiary in south Korea. This was partly offset by the restructuring cost at the Silmet facility from the shuttering of its energy-intensive hydrometallurgical processing of niobium and tantalum bearing ores, and the restructuring cost at Neo's facility in south Korea, charges for estimated damage claims related to legal proceedings and estimated costs for the disposal of existing naturally occurring radioactive materials ("**NORM**").

Finance cost (income), net

Finance cost (income), net, for the year and three months ended December 31, 2023 was an expense of $6.7 million and an income of $0.7 million, respectively, compared to expenses of $15.3 million and $11.1 million, respectively, for the year and three months ended December 31, 2022. Neo's finance cost (income), 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 certain performance criteria are met. 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 cost (income), net.

The following table shows the breakdown of finance cost (income), net, as presented in the consolidated statements of profit or loss:

	Year Ended December 31,		Three Months Ended December 31,	
	2023	2022	2023	2022
Change in fair value of equity securities	$ 565	$ 1,075	$ 150	$ (157)
Change in fair value of derivative liabilities	7,187	13,866	(735)	11,364
Accretion expense on lease liabilities	229	121	60	26
Interest earned on bank deposits net of interest paid on bank advances	(1,729)	(586)	(249)	(417)
Interest expense on EDC credit facility	—	108	—	108
Interest expense on Estonia debt facility	146	111	6	53
Interest expense on China debt facility	46	469	1	82
Interest expense on German debt facility	155	95	9	57
Interest expense on Barclays debt facility	108	—	16	—
Total	**$ 6,707**	**$ 15,259**	**$ (742)**	**$ 11,116**

Income tax (expense) benefit

For the year and three months ended December 31, 2023 , Neo had income tax expense of $11.7 million and a nominal income tax benefit, respectively, on income from operations before tax of $6.2 million and loss of $1.9 million, respectively. For the year and three months ended December 31, 2022, Neo had income tax expenses of $17.8 million and $2.0 million, respectively, on an income from operation before tax of $41.4 million and a loss from operations before tax of $4.4 million, respectively.

Neo's effective income tax rates were 189.4% and 2.0%, respectively, for the year and three months ended December 31, 2023, and 42.9% and (45.9)%, respectively, for the year and three months ended December 31, 2022.

Significant items increasing the effective income tax rate for the year ended December 31, 2023 include the impact of unrecognized deferred tax assets, tax losses in jurisdictions for which there is no tax benefit and non-deductible finance costs largely related to the revaluation of the Buss & Buss derivative liability of a put option. The effective income tax rate for the three months ended December 31, 2023 is reduced by tax losses in jurisdictions for which there is no tax benefit.

Non-deductible finance costs increased the effective tax rate for the year ended December 31, 2022 and, in addition to unrecognized tax losses, resulted in the negative effective income tax rate for the three months ended December 31, 2022.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of $41.7 million (excluding $13.3 million relating to property, plant and equipment as part of the acquisition of SGTec) for the year ended December 31, 2023, compared to $17.5 million for the year ended December 31, 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 $33.6 million spent since inception (RMB 233.8 million) including approximately $4.4 million to secure a 50 year land lease at the new site. Of this, $22.7 million (RMB 161.3 million) was spent during the year ended December 31, 2023. Additionally, $2.6 million in interest expense relating to the EDC facility was capitalized in Construction in Progress for the year ended December 31, 2023.

For the year ended December 31, 2023, Neo has also capitalized approximately $9.0 million on the establishment of the rare earth magnet manufacturing capability in Europe.

For the year ended December 31, 2023, $7.4 million 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, 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 labour-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 six 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**"), European patent #1527018 ("**018**") and European patent #1435338 B1 ("**338**"). Neo C&O (Europe) filed an appeal in the 018 infringement action, which stayed pending a final judgement in a separate case concerning the validity of 018, which is pending before the German Federal Supreme Court. 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, 846 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 018, European patent #2523907 ("**907**") and European patent #2007682 ("**682**"). The German Federal Patent Court upheld the validity of both 018 and 907 in restricted form. Both Rhodia and Neo have appealed these rulings. The German Federal Supreme Court has set the 018 matter for a hearing on October 10, 2024, and the 907 matter for a hearing on December 3, 2024. On February 6, 2024, the German Federal Patent Court revoked 682 in Germany. This ruling is subject to the right of appeal by Rhodia.

In addition to the above-referenced cases, Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed 682, 907 and European Patent #3009403 B1 ("**403**"). 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 was pending before the Düsseldorf Regional Court at December 31, 2023, and a hearing happened on February 22, 2024. On March 14, 2024, the Düsseldorf Regional Court ruled that Neo infringed on 403. This ruling is subject to Neo's right of appeal. 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 favour of Neo C&O (Europe) is 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 appealed the judgment of non-infringement. In December 2023, the Supreme People's Court affirmed the judgment of non-infringement, and dismissed the appeal of Rhodia.

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	
European Patent EP 3009403	Germany	Not specified
European Patent EP 3009403	Estonia	$0.1 million
European EP 1435338 B1 (1)	Germany	$42.1 million (€38.0 million)
European patent 0955267 (1)	Germany	$0.7 million (€0.6 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.

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

($000s, except volume)	**Year Ended December 31,**				**Three Months Ended December 31,**			
	2023	**2022**	**Change**	%	**2023**	**2022**	**Change**	%
Net (loss) income	**$(8,391)**	**$26,418**	**$ (34,809)**	(131.8%)	**$ (1,129)**	**$ (7,162)**	**$ 6,033**	84.2%
Add back (deduct):								
Finance cost (income), net	6,707	15,259	(8,552)		(742)	11,116	(11,858)	
Income tax expense (benefit)	11,683	17,793	(6,110)		(39)	2,022	(2,061)	
Depreciation and amortization included in cost of sales	9,626	9,406	220		2,416	2,361	55	
Depreciation and amortization included in operating expenses	7,187	7,313	(126)		1,813	1,784	29	
EBITDA	**26,812**	**76,189**	**(49,377)**	(64.8%)	**2,319**	**10,121**	**(7,802)**	(77.1%)
Adjustments to EBITDA:								
Other (income) expense [(1)]	(3,138)	2,228	(5,366)		(2,776)	492	(3,268)	
Foreign exchange loss (gain) [(2)]	1,428	(301)	1,729		(4)	(476)	472	
Equity loss (income) of associates	2,878	(2,783)	5,661		(780)	735	(1,515)	
Share-based compensation [(3)]	3,738	2,483	1,255		1,946	610	1,336	
Fair value adjustments to inventory acquired [(4)]	1,217	—	1,217		222	—	222	
Transaction and project startup costs (recoveries) [(5)]	2,571	(22)	2,593		457	—	457	
Impairment of assets [(6)]	1,713	1,233	480		1,713	938	775	
Adjusted EBITDA[(I)]	**$37,219**	**$79,027**	**$ (41,808)**	(52.9%)	**$ 3,097**	**$12,420**	**$ (9,323)**	(75.1%)
Adjusted EBITDA Margins[(II)]	*6.5%*	*12.3%*			*2.4%*	*7.8%*		
Less:								
Capital expenditures [(7)]	$43,961	$17,470	$ 26,491	151.6%	$24,332	$ 6,372	$ 17,960	282%
Free Cash Flow	**$(6,742)**	**$61,557**	**$ (68,299)**	(111.0%)	**$(21,235)**	**$ 6,048**	**$ (27,283)**	(451.1%)

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

($000s, except volume)	Year Ended December 31,				Three Months Ended December 31,			
	2023	**2022**	**Change**	%	**2023**	**2022**	**Change**	%
Free Cash Flow Conversion [8]	(18.1%)	77.9%			(685.7%)	48.7%		
Revenue	$571,545	$640,298	$ (68,753)	(10.7%)	128,668	159,168	(30,500)	(19.2%)
Sales volume (tonnes)	12,970	13,118	(148)	(1.1%)	3,144	3,193	(49)	(1.5%)

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. For the year and three months ended December 31, 2023, included in other income was a bargain purchase gain resulting from the acquisition of SGTec when the consideration paid was less than the fair value of the identifiable net assets, and a net gain of $0.7 million from the sale of Neo's property, plant and equipment at its subsidiary in south Korea. This was partly offset by the restructuring cost at the Silmet facility from the shuttering of its energy-intensive hydrometallurgical processing of niobium and tantalum bearing ores, the restructuring cost at Neo's facility in south Korea, charges for estimated damage claims related to legal proceedings and estimated costs for the disposal of existing NORM.

(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 Omnibus LTIP 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 $1.2 million. All of this inventory was sold during the year, and had a $1.2 million and $0.2 million, respectively, impact on Net income (loss) in the year and three months ended December 31, 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 year and three months ended December 31, 2023, Neo incurred $1.4 million and $0.5 million, respectively, of project costs related to the establishment of the rare earth magnet manufacturing capability in Europe. Additionally, Neo also incurred total acquisition-related costs of $1.2 million and $nil, respectively, in the acquisition of SGTec for the year and three months ended December 31, 2023. These costs have been included in selling, general and administrative expense in the condensed consolidated statements of profit or loss.

(6) For the year and three months ended December 31, 2023, the amount represents impairment in property, plant and equipment of $1.7 million and inventory of $1.1 million in order to streamline the operational and business processes at the Silmet facility. This was partly offset by the recovery of asset in the C&O segment due to the reversal of previously impaired asset on June 30, 2020, which will be transferred to NAMCO's new facility for utilization. For the year and three months ended December 31, 2022, the amount represents impairment in property, plant and equipment, long-term asset and prepayment.

(7) Includes capital expenditures of $41.7 million and right-of-use assets of $2.2 million for the year ended December 31, 2023 and capital expenditures of $24.3 million for the three months ended December 31, 2023. The aforementioned amounts exclude the additions of Property, Plant and Equipment of $13.3 million from the acquisition of SGTec.

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

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

($000s)	**Year Ended December 31,**		**Three Months Ended December 31,**	
	2023	**2022**	**2023**	**2022**
Net (loss) income	**$ (8,391)**	**$ 26,418**	**$ (1,129)**	**$ (7,162)**
Adjustments to net (loss) income:				
Foreign exchange loss (gain) (1)	1,428	(301)	(4)	(476)
Impairment of assets (2)	1,713	1,233	1,713	938
Share-based compensation (3)	3,738	2,483	1,946	610
Transaction and project startup costs (recoveries) (4)	2,571	(22)	457	—
Other items included in other (income) expense (5)	(2,529)	2,560	(2,251)	546
Fair value adjustments to inventory acquired (6)	1,217	—	222	—
Tax impact of the above items	(722)	(615)	(53)	(142)
Adjusted net (loss) income (II)	**$ (975)**	**$ 31,756**	**$ 901**	**$ (5,686)**
Attributable to:				
Equity holders of Neo	$ (1,026)	$ 31,285	$ 663	$ (5,815)
Non-controlling interest	$ 51	$ 471	$ 238	$ 129
Weighted average number of common shares outstanding:				
Basic	44,325,106	41,992,938	42,417,505	45,196,921
Diluted	44,325,106	42,327,548	42,417,505	45,196,921
Adjusted (loss) earnings per share attributable to equity holders of Neo:				
Basic	$ (0.02)	$ 0.75	$ 0.02	$ (0.13)
Diluted	$ (0.02)	$ 0.74	$ 0.02	$ (0.13)

Notes:

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

(2) For the year and three months ended December 31, 2023, the amount represents impairment in property, plant and equipment of $1.7 million and inventory of $1.1 million in order to streamline the operational and business processes at the Silmet facility. This was partly offset by the recovery of asset in the C&O segment due to the reversal of previously impaired asset on June 30, 2020, which will be transferred to NAMCO's new facility for utilization. For the year and three months ended December 31, 2022, the amount represents impairment in property, plant and equipment, long-term asset and prepayment.

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

(4) 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 year and three months ended December 31, 2023, Neo incurred $1.4 million and $0.5 million, respectively, of project costs related to the establishment of the rare earth magnet manufacturing capability in Europe. Additionally, Neo also incurred total acquisition-related costs of $1.2 million and $nil, respectively, in the acquisition of SGTec for the year and three months ended December 31, 2023. These costs have been included in selling, general and administrative expense in the condensed consolidated statements of profit or loss.

(5) Represents other (income) 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. For the year and three months ended December 31, 2023, included in other income was a bargain purchase gain resulting from the acquisition of SGTec when the consideration paid was less than the fair value of the identifiable net assets, and a net gain of $0.7 million from the sale of Neo's property, plant and equipment at its subsidiary in south Korea. This was partly offset by the restructuring cost at the Silmet facility from the shuttering of its energy-intensive hydrometallurgical processing of niobium and tantalum bearing ores and the restructuring cost at Neo's facility in south Korea .

(6) 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 $1.2 million. All of this inventory was sold during the year, and had a $1.2 million and $0.2 million, respectively, impact on Net income (loss) in the year and three months ended December 31, 2023.

10. 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).

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($000s, except volume)	Year Ended December 31,				Three Months Ended December 31,			
	2023	**2022**	**Change**	**%**	**2023**	**2022**	**Change**	**%**
Operating income	**$7,618**	**$30,538**	**$(22,920)**	(75.1%)	**$ 2,675**	**$ 2,543**	**$ 132**	5.2%
Net income	**$7,773**	**$25,148**	**$(17,375)**	(69.1%)	**$10,270**	**$ 3,827**	**$ 6,443**	168.4%
Add back (deduct):								
Finance income, net	(621)	(135)	(486)		(513)	(93)	(420)	
Income tax expense (benefit)	2,206	8,123	(5,917)		(2,609)	493	(3,102)	
Depreciation and amortization included in cost of sales	3,791	3,472	319		927	832	95	
Depreciation and amortization included in operating expenses	5,399	5,570	(171)		1,357	1,305	52	
EBITDA	**18,548**	**42,178**	**(23,630)**	(56.0%)	**9,432**	**6,364**	**3,068**	48.2%
Other income [(1)]	(2,237)	(258)	(1,979)		(2,340)	(29)	(2,311)	
Foreign exchange (gain) loss [(2)]	(1,041)	440	(1,481)		(1,165)	(2,392)	1,227	
Equity loss (income) of associates	1,537	(2,783)	4,320		(968)	735	(1,703)	
Share-based compensation [(3)]	554	595	(41)		312	110	202	
Fair value adjustments to inventory acquired [(4)]	1,217	—	1,217		222	—	222	
Transaction and project startup costs [(5)]	2,571	—	2,571		457	—	457	
Adjusted EBITDA[(I)]	**$21,149**	**$40,172**	**$(19,023)**	(47.4%)	**$ 5,950**	**$ 4,788**	**$ 1,162**	24.3%
Adjusted EBITDA Margins[(II)]	9.9%	14.5%			10.9%	8.3%		
Revenue	$213,735	$277,412	$(63,677)	(23.0%)	$54,827	$57,584	$ (2,757)	(4.8%)
Sales volume (tonnes)	4,694	4,808	(114)	(2.4%)	1,281	1,188	93	7.8%

Notes:

(1) Represents other income resulting from non-operational related activities. These costs and recoveries are not indicative of Neo's ongoing activities. For the year and three months ended December 31, 2023, included in other income was a bargain purchase gain resulting from the acquisition of SGTec when the consideration paid was less than the fair value of the identifiable net assets.

(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 Omnibus LTIP 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 $1.2 million. All of this inventory was sold during the year, and had a $1.2 million and $0.2 million, respectively, impact on Net income (loss) in the year and three months ended December 31, 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 year and three months ended December 31, 2023., Neo incurred $1.4 million and $0.5 million, respectively, of project costs related to the establishment of the rare earth magnet manufacturing capability in Europe. Additionally, Neo also incurred total acquisition-related costs of $1.2 million and $nil, respectively, in the acquisition of SGTec for the year and three months ended December 31, 2023. These costs have been included in selling, general and administrative expense in the condensed consolidated statements of profit or loss.

10.2 Chemicals & Oxides

($000s, except volume)	Year Ended December 31, 2023	Year Ended December 31, 2022	Change	%	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	Change	%
Operating income	**$4,088**	**$22,176**	**$(18,088)**	(81.6%)	**$ 2,622**	**$ 852**	**$ 1,770**	207.7%
Net (loss) income	**$(1,123)**	**$19,127**	**$(20,250)**	(105.9%)	**$(2,373)**	**$ (185)**	**$ (2,188)**	(1,183%)
Add back (deduct):								
Finance (income) cost, net	(443)	665	(1,108)		(118)	195	(313)	
Income tax expense	2,526	2,968	(442)		3,769	94	3,675	
Depreciation and amortization included in cost of sales	4,630	4,055	575		1,104	1,072	32	
Depreciation and amortization included in operating expenses	1,124	1,137	(13)		279	286	(7)	
EBITDA	**6,714**	**27,952**	**(21,238)**	(76.0%)	**2,661**	**1,462**	**1,199**	82.0%
Other expense (income) (1)	95	1,416	(1,321)		(384)	356	(740)	
Foreign exchange loss (gain) (2)	1,691	(2,000)	3,691		1,540	391	1,149	
Equity loss of associates	1,341	—	1,341		188	—	188	
Share-based compensation (3)	586	669	(83)		334	118	216	
(Recovery) impairment of assets (4)	(1,121)	287	(1,408)		(1,121)	287	(1,408)	
Adjusted EBITDA(I)	**$9,306**	**$28,324**	**$(19,018)**	(67.1%)	**$ 3,218**	**$ 2,614**	**$ 604**	23.1%
Adjusted EBITDA Margins(II)	3.9%	11.4%			5.8%	4.4%		
Revenue	$235,929	$248,011	$(12,082)	(4.9%)	$55,552	$58,767	$ (3,215)	(5.5%)
Sales volume (tonnes)	7,990	7,873	117	1.5%	1,816	1,871	(55)	(2.9%)

Notes:

(1) Represents other expenses (income) 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. For the year and three months ended December 31, 2023, included in other expense (income) were charges for estimated damage claims related to legal proceedings and estimated costs for the disposal of existing NORM.

(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 Omnibus LTIP and the LTIP.

(4) In December 2023, $1.1 million of property, plant and equipment that was previously impaired as a result of impairment testing performed as at June 30, 2020, was reversed as it will be transferred and utilized at NAMCO's new facility.

10.3 Rare Metals

($000s, except volume)	Year Ended December 31,				Three Months Ended December 31,			
	2023	**2022**	**Change**	%	**2023**	**2022**	**Change**	%
Operating income (loss)	**$19,670**	**$20,978**	**$ (1,308)**	(6.2%)	**$ (5,597)**	**$ 7,792**	**$(13,389)**	(171.8%)
Net income (loss)	**$3,761**	**$ (858)**	**$ 4,619**	538.3%	**$ (5,443)**	**$ (7,786)**	**$ 2,343**	30.1%
Add back (deduct):								
Finance cost (income), net	8,097	14,161	(6,064)		(171)	11,492	(11,663)	
Income tax expense (benefit)	6,970	6,629	341		(1,169)	1,409	(2,578)	
Depreciation and amortization included in cost of sales	1,205	1,879	(674)		385	457	(72)	
Depreciation and amortization included in operating expenses	334	308	26		100	90	10	
EBITDA	**20,367**	**22,119**	**(1,752)**	(7.9%)	**(6,298)**	**5,662**	**(11,960)**	(211.2%)
Other (income) expense (1)	(85)	1,070	(1,155)		(52)	165	(217)	
Foreign exchange loss (gain) (2)	925	(23)	948		1,238	2,513	(1,275)	
Share-based compensation (3)	166	195	(29)		78	4	74	
Impairment of assets(4)	2,834	946	1,888		2,834	651	2,183	
Adjusted EBITDA(I)	**$24,207**	**$24,307**	**$ (100)**	(0.4%)	**$ (2,200)**	**$ 8,995**	**$(11,195)**	(124.5%)
Adjusted EBITDA Margins(II)	19.4%	18.6%			(11.2%)	20.5%		
Revenue	$124,601	$130,386	$ (5,785)	(4.4%)	$19,724	$43,865	$(24,141)	(55.0%)
Sales volume (tonnes)	326	546	(220)	(40.3%)	67	144	(77)	(53.5%)

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. For the year and three months ended December 31, 2023, included in other (income) expense was a net gain of $0.7 million from the sale of Neo's property, plant and equipment at its subsidiary in south Korea. This was partly offset by the restructuring cost at the Silmet facility from the shuttering of its energy-intensive hydrometallurgical processing of niobium and tantalum bearing ores and the restructuring cost at Neo's facility in south Korea.

(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 Omnibus LTIP and the LTIP.

(4) In December 2023, Neo recorded an impairment of $1.7 million of property, plant and equipment and $1.1 million of inventory in order to streamline the operational and business processes at the Silmet facility. For the year and three months ended December 31, 2022, the amount represents impairment in property, plant and equipment, long-term asset and prepayment.

11. Summary of Consolidated Quarterly Results

($000s, except for earnings per share information)	2023				2022			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	**$128,668**	**$136,917**	**$170,430**	**$135,530**	**$159,168**	**$146,627**	**$168,221**	**$166,282**
Net (loss) income attributable to equity holders of Neo	**(1,367)**	**3,069**	**310**	**(10,454)**	**(7,291)**	**(3,719)**	**14,607**	**22,350**
Basic EPS	(0.03)	0.07	0.01	(0.23)	(0.16)	(0.09)	0.36	0.55
Diluted EPS	(0.03)	0.07	0.01	(0.23)	(0.16)	(0.09)	0.36	0.54
Operating (loss) income	**(5,470)**	**6,959**	**13,675**	**(3,997)**	**6,727**	**2,239**	**20,963**	**28,685**
Net (loss) income	**(1,129)**	**3,109**	**329**	**(10,700)**	**(7,162)**	**(3,812)**	**14,691**	**22,701**
Add back (deduct):								
Finance (income) cost, net	(742)	(648)	4,085	4,012	11,116	1,437	2,292	414
Income tax (benefit) expense	(39)	4,124	5,988	1,610	2,022	3,775	6,001	5,995
Depreciation and amortization included in cost of sales	2,416	2,674	2,368	2,168	2,361	2,279	2,388	2,378
Depreciation and amortization included in operating expenses	1,813	1,794	1,814	1,766	1,784	1,781	1,853	1,896
EBITDA	**2,319**	**11,053**	**14,584**	**(1,144)**	**10,121**	**5,460**	**27,225**	**33,384**
Add back:								
Other (income) expense (1)	(2,776)	(1,011)	171	478	492	448	855	433
Foreign exchange (gain) loss (2)	(4)	190	662	580	(476)	723	(959)	411
Equity (income) loss of associates	(780)	1,195	2,440	23	735	(332)	(1,917)	(1,269)
Share and value-based compensation (3)	1,946	1,024	(82)	850	610	735	957	181
Impairment of assets (4)	1,713	—	—	—	938	—	295	—
Fair value adjustments to inventory acquired (5)	222	423	572	—	—	—	—	—
Transaction and project startup costs (recoveries) (6)	457	286	1,828	—	—	—	—	(22)
Adjusted EBITDA(I)	**$ 3,097**	**$13,160**	**$20,175**	**$ 787**	**$12,420**	**$ 7,034**	**$26,456**	**$33,118**
Adjusted EBITDA Margins(II)	*2.4%*	*9.6%*	*11.8%*	*0.6%*	*7.8%*	*4.8%*	*15.7%*	*19.9%*

Notes:

(1) Represents other (income) expense 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. Included in other (income) expense in the three months ended December 31, 2023, was a bargain purchase gain resulting

from the acquisition of SGTec when the consideration paid was less than the fair value of the identifiable net assets, and a net gain of $0.7 million from the sale of Neo's property, plant and equipment at its subsidiary in south Korea. This was partly offset by the restructuring cost at the Silmet facility from the shuttering of its energy-intensive hydrometallurgical processing of niobium and tantalum bearing ores, the restructuring cost at Neo's facility in south Korea, charges for estimated damage claims related to legal proceedings and estimated costs for the disposal of existing NORM.

(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 Omnibus LTIP and the LTIP.

(4) Represents impairment in property, plant and equipment of $1.7 million and inventory of $1.1 million in order to streamline the operational and business processes at the Silmet facility. This was partly offset by the recovery of asset in the C&O segment due to the reversal of previously impaired asset on June 30, 2020, which will be transferred to NAMCO's new facility for utilization.

(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 $1.2 million. All of this inventory was sold during the year, and had a $1.2 million and $0.2 million, respectively, impact on Net income (loss) in the year and three months ended December 31, 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 months ended December 31, 2023, Neo incurred $0.5 million of project costs related to the establishment of the rare earth magnet manufacturing capability in Europe. Additionally, Neo also incurred total acquisition-related costs of $1.2 million in the acquisition of SGTec for the year ended December 31, 2023. These costs have been included in selling, general and administrative expense in the condensed consolidated statements of profit or loss.

12. Liquidity and Capital Resources

Year ended December 31, 2023 compared to year ended December 31, 2022:

	Year Ended December 31,	
($000s)	**2023**	**2022**
Cash flow:		
Cash provided by operating activities	$ 61,619	$ 3,696
Cash used in investing activities	(59,116)	(17,431)
Cash (used in) provided by financing activities	(62,043)	74,793
Financial position - as at	**December 31, 2023**	**December 31, 2022**
Cash and cash equivalents	$ 86,895	$ 147,491
Restricted cash	3,357	1,179
Property, plant and equipment	118,918	75,767
Total assets	627,004	676,460
Bank advances and other short-term debt	—	17,288
Current portion of long-term debt	2,230	747
Long-term debt	23,101	29,885

As at December 31, 2023, Neo had cash and cash equivalents of $86.9 million plus restricted cash of $3.3 million, compared to $147.5 million plus $1.2 million as at December 31, 2022. For the year ended December 31, 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 purchase consideration held in escrow (which was subsequently released on January 3, 2024), invested $4.8 million in NNSR and GQD Special Materials (Thailand) Co., Ltd. ("**GQD**"), paid $13.4 million in dividends to its shareholders and made NCIB purchases in the amount of $19.9 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 year ended December 31, 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

- $34.8 million from operations before net change in working capital, income taxes paid and net interest received;
- $39.2 million net change in working capital.

Outflows

- $13.4 million of dividends paid to shareholders;
- $19.9 million of shares repurchased under the NCIB;
- $2.2 million of lease payments;
- $25.7 million repayment of bank advances and debt 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 purchase consideration held in escrow for the acquisition of SGTec);
- $4.8 million investment in associates;
- $41.7 million of other capital spending; and
- $13.4 million of income taxes paid;

Cash Provided by Operating Activities

Net cash provided by operating activities was $61.6 million for the year ended December 31, 2023, compared to $3.7 million for the year ended December 31, 2022.

The $39.2 million net change in working capital for the year ended December 31, 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 year ended December 31, 2023, net cash used in investing activities was $59.1 million, compared to $17.4 million for the year ended December 31, 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 purchase consideration held in escrow for the acquisition of SGTec), a $4.8 million investment in associates, $25.3 million (including capitalized interest of $2.6 million relating to the EDC facility) for NAMCO relocation, $9.0 million on the establishment of the rare earth magnet manufacturing capability in Europe, as well as additional capital projects performed at the Tianjin and the 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 year ended December 31, 2023 was $62.0 million, compared to $74.8 million net cash provided by financing activities for the year ended December 31, 2022. For the year ended December 31, 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 $19.9 million in shares repurchased, distributed $13.4 million in dividends to Neo's shareholders, and spent $2.2 million in lease payments. For the year ended December 31, 2022, Neo received $47.7 million of proceeds from issuance of common shares from treasury, drew an additional $12.4 million from its credit facilities, borrowed $25.0 million, net of transaction costs of $1.3 million, from its EDC credit facility and $6.9 million from its Estonia debt facility, distributed $13.4 million in dividends to Neo's shareholders, and spent $1.4 million in lease payments.

($000s)

Cash and cash equivalents by Country	**December 31, 2023**	**December 31, 2022**
China (including Hong Kong)	$ 39,493	$ 55,526
Estonia	4,239	5,709
United States	8,390	4,524
Canada	7,341	47,440
Japan	3,659	1,238
United Kingdom	2,772	6,937
Germany	7,177	10,216
Singapore	3,921	6,867
Barbados	354	721
Thailand	8,094	7,444
Cayman Islands	32	28
Other	1,423	841
Total cash and cash equivalents	**$ 86,895**	**$ 147,491**

Approximately $9.7 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.

Export Development Canada credit facility

On August 16, 2022, Neo entered into a loan agreement (the "**Loan Agreement**") with EDC for a term loan of up to $75.0 million (the "**Credit Facility**"), to be advanced in three tranches of $25.0 million, to finance the relocation, expansion, and sustainability upgrades to its environmental emissions catalyst manufacturing facility (the "**NAMCO Project**"). Of the $75.0 million facility, $25.0 million was drawn in the fourth quarter of 2022, and second tranche was subsequently drawn on January 11, 2024.

The Credit Facility matures five years from the date of the loan agreement, on August 16, 2027, with principal repayments beginning on August 16, 2024.

The outstanding principal amount carries an interest rate equal to the SOFR, as administered by the Federal Reserve Bank of New York, plus an applicable margin. The interest is payable every three months, commencing on the borrowing date of the loan agreement.

Prior to drawing each of the three tranches, the Loan Agreement requires certain conditions to be fulfilled including detail engineering for the NAMCO Project, including all specifications, plans, documents and drawings that are issued for construction, erection and installation purposes in respect of the NAMCO Project as required by EDC, maintenance of cost performance relative to budget, disclosures related to environmental and social law compliance, and other certifications from management and third-party environmental monitoring consultants.

The Credit Facility is guaranteed by a number of Neo’s Subsidiaries and contain a number of covenants (which include a maximum leverage ratio and debt service coverage ratio levels that should be maintained – as such terms are defined in the executed agreement), including specific terms relating to the timing and basis of interest payable, compliance with laws and regulations, financial statements, acquisitions, dividend payments or distributions to shareholders.

Chinese debt facility

In the third quarter of 2021, Magnequench (Tianjin) Co. Ltd., Magnequench International Trading (Tianjin) Co. Ltd., Jiangyin Jia Hua Advanced Material Resources Co. Ltd., Zibo Jiahua Advanced Material Resources Co. Ltd., Magnequench Magnetics (Chu Zhou) Co. Ltd., and NAMCO, each refer to as a ("**Borrower**") or collectively ("**Chinese Subsidiaries**"), entered into a $10.0 million Overdraft Facility ("**Tranche I**") and a $20.0 million Import Facilities or a Multiple Currency Revolving Loan Facility, collectively ("**Tranche II**") with HSBC Bank (China) ("**Lender**"). Tranche I and Tranche II (collectively, the "**Facilities**") may be drawn down in accordance with the provisions of the Facilities to finance the working capital requirement of the Chinese Subsidiaries.

The Facilities are cross-guaranteed by the Chinese Subsidiaries and by Neo and contains a number of financial covenants (which include a debt-to-equity ratio and that minimum equity and EBITDA levels be maintained – as such terms are defined in the Facilities agreement) and commercial covenants, including specific terms relating to the timing, interest payable and maturity terms of each draw on these Facilities.

There was no balance outstanding on the Facilities as at December 31, 2023.

Estonia debt facility

On December 23, 2021, Silmet entered into a $7.8 million (€7.0 million) credit facility with OP Corporate Bank plc Eesti filiaal ("OP Bank") to finance working capital and other investments at Silmet. This debt facility can be drawn in Euros and accrues interest at a rate equal to the 6-month Euribor plus 1.95% per annum.

As part of the facility agreement, Silmet has pledged certain security as collateral in favour of OP Bank, including a combined mortgage over certain real estate properties for $10.0 million (€9.0 million), and certain other fixed assets for $5.5 million (€5.0 million).

The facility contains a number of financial covenants, which include a debt service coverage ratio, an equity ratio, and that a maximum net debt to EBITDA ratio not be exceeded – as such terms are defined in the facility agreement. The financial covenants are tested semi-annually as of June 30 and December 31 each year.

There was no balance outstanding on this debt facility as at December 31, 2023.

German debt facility

As at December 31, 2023, Buss & Buss has a $13.9 million (€12.5 million) revolving line of credit which can be drawn either in Euros or U.S. dollars. The bank is entitled to revise the interest rate if the three-month Euro Interbank Offered Rate ("**Euribor**") average rate changes by more than 0.25%, up to a maximum of 0.1% plus the actual change in average rate.

The security for the revolving line of credit includes a directly enforceable guarantee of the non-controlling shareholder of Buss & Buss amounting to $0.3 million (€0.3 million) as well as a lien amounting to $0.6 million (€0.5 million) on certain property, plant and equipment. The remainder of the revolving line of credit is secured by certain working capital of Buss & Buss.

There was no balance outstanding on this German debt facility as at December 31, 2023.

Barclays bank PLC loan facilities

SGTec has two term loan facilities in the amounts of $3.0 million (2.4 million Great British Pounds ("**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.

The securities for the term loan facilities include a cross guarantee in favour of Barclays and debenture in favour of Barclays either from or granted by SGTec, and a lien over the land and property of SGTec.

The amounts outstanding on these term loan facilities were $1.5 million (1.2 million GBP) as at December 31, 2023.

13. 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				
($000s)	**1 year**	**2 - 3 years**	**4 - 5 years**	**Thereafter**	**Total**
Accounts payable and other accrued charges	71,984	—	—	—	71,984
Derivative liabilities (1)	36,294	—	1,082	—	37,376
EDC credit facility (2)	2,108	4,239	17,469	—	23,816
Barclays bank loan facilities (3)	122	1,393	—	—	1,515
Provisions (4)	823	26,197	—	—	27,020
Lease obligations (5)	1,664	1,271	161	993	4,089
Other liabilities (6)	692	1,276	20	296	2,284
Total	**$ 113,687**	**$ 34,376**	**$ 18,732**	**$ 1,289**	**$ 168,084**

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 2.0 million GBP.

As at December 31, 2023, Neo had $86.9 million of cash and cash equivalents and approximately $3.3 million of restricted cash. The restricted cash is held as collateral against Letters of Credit. Neo believes that the remainder of its cash, in addition to cash from operating activities, is available (or sufficient) to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months. Neo considers cash to be "available" to the extent it can be utilized in operating activities, for capital expenditures, for intercompany loans or for repatriation. Neo also maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

14. 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**"). Under the NCIB, purchases may 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 cancelled. The NCIB terminates on June 18, 2024.

For the year ended December 31, 2023, Neo repurchased and cancelled 3,186,140 shares for $19.9 million. There were no shares repurchased for the year ended December 31, 2022.

Neo has used up the allotment under the NCIB for up to 3,585,011 of its issued and outstanding common shares on February 29, 2024. Between January 1 and February 29, 2024, Neo repurchased and cancelled, 398,871 shares under the NCIB for a total consideration of $2.2 million. No shares are repurchased after February 29, 2024.

15. Subsequent Event

Dividends payable to equity holders of Neo

On March 13, 2024, the Board of Directors declared a quarterly dividend of Cdn $0.10 per common share payable in cash on March 27, 2024 to common shareholders of record at the close of business on March 18, 2024.

16. Off-Balance Sheet Arrangements

As at December 31, 2023, Neo's only off-balance sheet arrangements are purchase obligations.

17. 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.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

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.

Income taxes

In the ordinary course of business, there are many transactions for which the ultimate tax outcome is uncertain, and estimates are required for exposures related to examinations by tax authorities. Management reviews these transactions and exposures and records tax liabilities based on its assessment of many factors, including past experience and interpretations of tax law applied to the facts of each matter. The determination of tax liabilities is subjective and generally involves a significant amount of judgment. The final outcome may differ from estimates, and a change to these estimates could impact the income tax provision.

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on Neo's expectation of future profitability by legal entity adjusted for significant non-taxable income and expenses as well as limits to the use of loss carryforwards or other tax credits. If a positive forecast of taxable income indicates the probable future use of a deferred tax asset, it is usually recognized in full. Recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

Impairment

An impairment loss is recognized for the amount by which an asset's or CGU's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use. To determine the recoverable amount, management estimates expected future cash flows from each asset or CGU and determines a suitable discount rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to Neo's assets in future periods. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. Similarly, when a reversal of an impairment loss previously recorded occurs (for property, plant and equipment and finite life intangible assets), the reversal is recognized with the carrying amount of the asset increased to the lesser of the revised estimate of its recoverable amount and the carrying value that would have remained had no impairment loss been recognized previously. Significant judgment is involved in determining if there is an indication that an asset or a CGU may be impaired or there is an indication that a previously recognized impairment loss of an asset or a CGU has reversed because of a change in the estimates used to determine the impairment loss.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2023, management assessed that the useful lives represented the expected utility of the assets to Neo.

Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the time the estimates are made. Neo's core business is subject to changes in foreign policies and internationally accepted metal prices which may cause selling prices to change rapidly.

Provisions

A provision is recognized if, as a result of a past event, Neo has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. The timing or amount of the outflow may still be uncertain. Management estimates the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes to these financial statements regarding financial assets and liabilities. In applying the valuation techniques management makes use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Government grants

Government grants are not recognized until there is reasonable assurance that Neo will comply with the conditions attached to them and that the grant will be received. Government grants are recognized in profit or loss on a systematic basis over the periods that Neo expenses the related costs for which the grants are intended to compensate.

18. 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.

18.1 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:

	Year Ended December 31,	
	2023	**2022**
Purchase of goods and services from associates:		
TMT	$ 7,965	$ 4,798
Keli	32,199	87,528
GQD	3,498	18,700
Sales of goods and services to associates:		
TMT	11,407	9,888
Keli	—	1,374
GQD	12,394	—

18.2 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:

	Year Ended December 31,	
	2023	**2022**
Sale of goods to Toda	$ 2,568	$ 1,634
Purchase of goods from Qian Dong	3,111	1,658

18.3 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 year ended December 31, 2023, sales to Atatsu were $0.2 million. For the year ended December 31, 2022, sales to Atatsu were $1.3 million.

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

	Year Ended December 31,	
	2023	2022
Sale of goods and services to related parties	$ 30,122	$ 17,023
Purchase of goods and services from related parties	46,773	112,684

	Year Ended December 31,	
	2023	2022
Trade balances:		
from related parties	$ 4,043	$ 2,374
due to related parties	(4,336)	(9,295)
Total	**$ (293)**	**$ (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:

	Year Ended December 31,	
	2023	2022
Directors	$ 635	$ 496
Key Executive Management	4,515	5,204
Total	**$ 5,150**	**$ 5,700**

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

	Year Ended December 31,	
	2023	2022
Directors	$ (19)	$ (890)
Key Executive Management	2,056	2,783
Total	**$ 2,037**	**$ 1,893**

19. Financial Instruments and Risk Management

The following table presents financial assets and liabilities measured at fair value in the consolidated statements of financial position in accordance with the fair value hierarchy. It does not include financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the consolidated statements of financial position as at December 31, 2023, are grouped into the fair value hierarchy as follows:

($000s)	Level 1	Level 2	Level 3
Financial Assets:			
Equity securities	$ 342	$ —	$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	$ —	$ —	$ 36,294
Put option issued to non-controlling interest of SGTec	$ —	$ —	1,082
Contingent consideration liability	$ —	$ —	686

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

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions may significantly change amounts recognized in net income, total assets, total liabilities or total equity. The following is a sensitivity analysis of the inputs to the valuation model of the Buss & Buss derivative liability as at December 31, 2023:

	Effect of 1% increase (1)	Effect of 1% decrease (1)
Terminal growth rate	556	(488)
Overall discount rate	(1,103)	1,229

Notes:

(1) Assuming all other inputs are unchanged

There have been no transfers between levels for the year ended December 31, 2023.

Neo is exposed to a number of risks in the normal course of business that have the potential to affect its performance. These risk factors include commodity price risk, foreign currency risk, credit risk and liquidity risk.

Commodity price risk

A portion of Neo's current business is conducted in the spot market; therefore, prices can vary with the transaction and individual bids received. Neo's products are primarily marketed to manufacturers as component materials. Prices will vary based on the demand for the end products being produced with the raw materials Neo processes.

Neo's sales and profitability are determined principally by the pricing of the advanced industrial materials it produces, and, to a lesser extent, by the price of natural gas and other supplies used in its production process. The prices of the rare earth products are influenced by the price and demand of the end products that Neo's products support, including automotive, electronics and clean energy technologies. A significant decrease in the global demand for these products may have a material adverse effect on Neo's business. Neo does not have hedging contracts for revenues and costs in place.

Neo's costs and capital investments are subject to market movements in other commodities such as natural gas and chemicals. Neo may enter into derivative contracts for a portion of the expected usage of these products, but it does not currently have any derivative contracts on these commodities, and it does not currently anticipate entering into derivative agreements on commodities.

Foreign currency risk

Neo is exposed to fluctuations of the U.S. dollar against the functional currencies of its foreign subsidiaries, including the Euro, the Canadian dollar, the Renminbi, the Thai baht and the Japanese Yen, when Neo translates its foreign subsidiaries' financial statements into U.S. dollars for inclusion in its consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive income (loss), a separate component of equity. Any increase (decrease) in the value of the U.S. dollar against those foreign currencies results in unrealized foreign currency translation losses (gains) with respect to assets acquired in, liabilities assumed from, intercompany balances with and results of operations from the foreign subsidiaries. Therefore, Neo may experience a negative impact on its comprehensive income (loss) and stockholders' equity with respect to its holdings in those subsidiaries as a result of foreign currency translation. Neo generally does not hedge against the risk that it may incur non-cash losses upon the translation of the financial statements of its foreign subsidiaries into U.S. dollars.

Credit risk

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and as a result, create a financial loss for Neo. Neo has a credit policy that defines standard credit practice. This policy dictates that all new customer accounts are reviewed prior to approval and establishes the maximum amount of credit exposure per customer. Credit worthiness and financial well-being of the customer is monitored on an ongoing basis.

Under IFRS 9, Neo calculates a loss allowance using the expected credit loss impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at December 31, 2023, the loss allowance was approximately $0.5 million. The estimated credit losses are included in selling, general and administrative expenses in the consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose Neo to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at December 31, 2023, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

Liquidity risk

Neo is exposed to the possibility that it may not be able to meet its financial obligations as they fall due. Neo manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account its sales and receipts and matching the maturity profile of financial assets and liabilities. Neo continues to maintain sufficient cash and certain credit facilities which can be drawn upon to meet its operating and capital expenditure obligations as needed. The Board reviews and approves the annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisition and other major investments.

20. Recent Accounting Pronouncements

20.1 Neo adopted the following accounting standards and amendments to accounting standards during the year ended December 31, 2023:

20.1.1 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 amendment did not have a material impact on the consolidated financial statements.

20.1.2 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 were adopted by Neo on January 1, 2023 and applied prospectively.

The amendments did not have a material impact on the consolidated financial statements.

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

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

The amendments were adopted by Neo on January 1, 2023 and applied prospectively.

The amendments did not have a material impact on the consolidated financial statements.

20.2 The following are new accounting pronouncements or amendments that have been issued by the IASB but have not yet been adopted by Neo as at December 31, 2023:

20.2.1 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 covenants 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.

20.2.2 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 January 1, 2025. Early adoption is permitted.

Neo does not anticipate that the above-mentioned amendments will have a material impact on its consolidated financial statements.

21. 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 December 31, 2023 and based on the evaluation, the CEO and CFO have concluded that the DC&P were effective.

Internal controls over financial reporting

Neo's internal controls over financial reporting ("**ICFR**") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Neo's management is responsible for establishing and maintaining adequate ICFR for Neo. National Instrument 52-109 of the Canadian Securities Administrators requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for Neo and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to Neo's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. There have been no material changes during the quarter ended December 31, 2023. Neo's management, under the supervision of the CEO and CFO, has evaluated the design and operating effectiveness of Neo's ICFR based on the Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As of December 31, 2023, management assessed that Neo's ICFR were effective.

In designing such controls, management, including the CEO and CFO, recognized that due to inherent limitations, any controls, no matter how well designed and operating effectively, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect all errors and fraud with respect to the financial statement preparation and presentation. Additionally, management is required to use judgment in evaluating controls and procedures.

Neo has excluded from its evaluation the ICFR of SGTec (the "**Acquired Entity**"), acquired effective April 19, 2023, as discussed in Neo's audited consolidated financial statements and accompanying notes for the year ended December 31, 2023. The total revenue subject to SGTec's ICFR represented 3.1% of Neo's consolidated total revenue for the year ended December 31, 2023. The total assets subject to SGTec's ICFR represented 1.8% of Neo's consolidated total assets as at December 31, 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.

22. Business Risks and Uncertainties

Neo's business activities exposes Neo to both risks and opportunities. Risk oversight and management processes are integral elements of Neo's approach to risk management and strategic planning initiatives to address both risks and opportunities.

Numerous risks and uncertainties could cause Neo's actual results or shareholder returns to differ materially from those expressed or implied, including those in the Forward-Looking Information, Financial Statements, other areas of this MD&A and Neo's 2023 Annual Information Form ("**AIF**") for the year ended December 31, 2023. Such risks and uncertainties include:

- Volatility in the price of Neo's common shares related to price or volume that may be unrelated to Neo's operating results;
- Payment of future dividends, which is at the discretion of the Board and may be subject to future restrictions or strategic initiatives;
- Difficulty in enforcing judgments in the jurisdictions in which Neo operates;
- The existence of a significant shareholder that may be able to direct a significant amount of voting power;
- Risks relating to the global pandemic;
- Risks relating to the management of joint venture relationships;
- Risks related to other geopolitical factors such as the current conflict in Ukraine, including risks associated with procuring raw material from various regions of the world, including Russia;
- Risk relating to China's regulation of the rare earths industry;
- Risks associated with the planned relocation of Neo's environmental emissions catalyst production facility, NAMCO, such as the inability to successfully design and build the new plant in compliance with applicable regulatory standards and necessary customer specifications;
- Risk relating to the construction and development of Neo's new plants in Narva, Estonia, which includes, but not limited to, rising construction costs and development charges, shortage of experienced labour and rising interest rates;
- The variability in quarterly results particularly as it relates to commodity price changes and the inability to pass-through cost changes;
- Failure to adapt to new products and technologies that may impact the sales of Neo's products;
- Disruptions to manufacturing processes and supply related to internal or external factors;
- Risks associated with the international nature of the business, including foreign legal requirements and differences in business practices;

- Changes to the general economic, industry and market conditions, both domestically and in foreign markets;
- Potentially adverse tax consequences in various jurisdictions, including the repatriation of cash to other jurisdictions;
- The inability to maintain permits and operating licenses in the jurisdictions and segments in which Neo operates;
- The inability to continue to procure cost effective material, including rare earths as well as material subject to conflict materials regulations;
- Trade barriers, exchange controls, export restrictions and other matters related to the export of materials from the manufacturing locations;
- The inability to maintain technical advantages through continuous development, protecting know-how and trade secrets as well as enforcing intellectual property rights in the various jurisdictions;
- The inability to defend against various intellectual property rights and applications currently asserted or potentially asserted in the future, including the inability to continue to supply parts to Neo's customers without significant economic penalty;
- The inability to arrange additional financing required in order to make further investments or take advantage of future opportunities, on terms satisfactory to Neo;
- The inability to maintain or satisfy the obligations under the credit facilities and other debt instruments;
- Changes in other regulations related to operating in the various jurisdictions, including changes with respect to the regulated rare earth industry in China;
- The inability to manage risks associated with the potential unauthorized use of company Chops in China or any other unauthorized use of authority;
- Customers and supplier dependence, including the inability to continually develop new products that meet changing standards and requirements;
- The inability to manage environmental liability exposure and continue to operate in environmentally sensitive areas with respect to legal requirements that may continue to change over time;
- The inability to maintain the services of key personnel including senior management, key technical people and other key employees;
- The inability to protect Neo's information technology systems and protect against cybersecurity attacks or any other situations that may cause disruption to Neo's inability to access its data and manage its business;
- The entrance of other competitors or substituted technologies into the markets in which Neo operates.

In addition to other information contained in this MD&A, readers should carefully consider the preceding factors before making an investment in common shares of Neo. All risk factors should be considered because they could cause Neo's actual results or financial condition to differ materially from those discussed in forward-looking statements contained elsewhere in this MD&A. The preceding risk factors are not an all-inclusive listing of risks. Risks and uncertainties that are either not known to Neo or that Neo considers at this time to be immaterial or insignificant could also be detrimental to the ongoing affairs of Neo. If any of these risks occur, Neo's business, financial position, results of operations or cash flows could be materially adversely affected. Further discussion of the risk factors set out above can be found in Neo's AIF.

23. Outstanding Shares Data

Class of Equity Security	Numbers Outstanding as at December 31, 2023
Common Shares	42,027,392
Stock Options*	1,560,793
Restricted Share Units & Performance Stock Units	616,563

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

The number of common shares outstanding as at March 14, 2024 is 41,631,492.

24. Legal Proceedings and Regulatory Actions

Legal Proceedings

From time to time, Neo and its subsidiaries are subject to litigation claims arising in the ordinary course of business, most of which involve alleged violations of the intellectual property rights of others. Neo manufactures and sells many products that use scientific formulations and processes, and its competitors may from time to time allege that they hold a patent on such formulations or processes that Neo has infringed. Neo generally believes that it has meritorious defenses to the actions that have been brought against it and vigorously pursues the defense of each such action, including but not limited to initiating legal proceedings to revoke or invalidate the patents Neo is alleged to have infringed. However, litigation outcomes are inherently unpredictable and may be even harder to predict for patent litigation since patents are issued separately by each country or applicable jurisdiction with different standards for infringement or invalidation, as well as differing levels of damages, including as a result of the number of customers and level of activity of Neo in a given country or jurisdiction.

If many or most of the proceedings initiated against Neo in respect of the patents held by others, described under *"Other Expenditures and Legal Contingencies"*, are finally determined in a manner adverse to Neo, there can be no assurance that such determinations would not have a material adverse effect upon Neo or upon its operations, cash flows, prospects or financial condition, and in some countries (or jurisdictions) listed in *"Other Expenditures and Legal Contingencies"*, management expects that an injunction or other remedy imposed for infringement will be materially adverse to Neo. It is not possible at this time to predict with any degree of certainty the impact upon Neo's operations in the event of such final adverse determinations. If injunctions were granted against it, Neo would be prohibited from manufacturing and distributing certain products in those jurisdictions subject to those injunctive orders. Neo could, in such event, re-establish its manufacturing capability for such products in jurisdictions not prohibited by any such orders, and thus would expect to encounter interruptions in its manufacturing of such products and in its ability to distribute such products to customers in jurisdictions not subject to such orders. The litigation proceedings described in this section affect certain products manufactured by Neo's C&O segment for use in auto catalysts. Neo manufactures a wide variety of products that are used in the production of auto catalysts, which accounted for 10% to 20% of total revenue. These products include multiple formulations in multiple jurisdictions to a number of different customers. Neo note; however, these claims do not affect all of the products manufactured by Neo's C&O segment, for use in auto catalysts nor do these claims pertain to all markets where such products are sold. Neo is not currently restricted with respect to the manufacture or distribution of any of its products as a result of ongoing litigation. However, in the event of final adverse determinations, Neo expects to take all available actions to mitigate the impacts of such rulings, including but not limited to continuing to pursue invalidation of the applicable patent (if not already decided) appealing the adverse rulings, obtaining licensing rights and finding new customer outlets. The geographically diverse nature of Neo's operations and that of certain of its customers potentially provides Neo with a measure of flexibility to manufacture the same products in certain other jurisdictions and continue to supply certain of its customers with the same products in certain other jurisdictions.

Neo also has the ability to work with customers to develop new products that may have a lower risk of potentially falling within the scope of existing patent claims.

Where appropriate, accruals are made in accordance with accounting standards for contingencies to provide for matters that are probable of resulting in an estimated loss. Based upon the status of the various cases, management's assessments of the likelihood of damages, and the advice of counsel, Neo has made accruals, as at December 31, 2023, for some of the proceedings outlined in *"Other Expenditures and Legal Contingencies"*, where Neo believes it would be more likely than not be liable for damages and other outflows of resources. Neo considers some of the other outstanding litigation as currently being too uncertain to result in accruals. Several of these actions are at a preliminary stage and have not gone to trial.

As mentioned above the laws concerning patents differ from country to country. Damages for patent infringement in Europe and China may include lost profits or a reasonable royalty, but enhanced damages for wilful infringement are generally not available, unlike the case in the United States.

See section entitled *"Legal Proceedings and Regulatory Actions"* in Neo's AIF.

Regulatory Actions

There have been no penalties or sanctions imposed against Neo by a court relating to provincial and territorial securities legislation or by a securities regulatory authority since incorporation.

25. Additional Information

Additional information is included in Neo's AIF available on Neo's website at www.neomaterials.com and on SEDAR at www.sedarplus.ca.

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.