MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2024

Management's Discussion and Analysis

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

The following Management's Discussion and Analysis ("**MD&A**") for Neo Performance Materials Inc. ("**Neo**") should be read in conjunction with the MD&A and audited consolidated financial statements and related notes thereto for the year ended December 31, 2023, dated March 14, 2024, and the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2024, 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 IFRS Accounting Standards as issued by the International Accounting Standards Board. "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Net Income or Loss", "Adjusted Earnings per Share", "EBITDA", "Free Cash Flow", and "Free Cash Flow Conversion" are not measures recognized under IFRS and do not have any standardized meaning prescribed by IFRS. These measures may differ from those used by other companies and are not necessarily comparable to similar measures presented by other companies. There are no directly comparable IFRS measures to any of these measures. These measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. See *"Management's Discussion and Analysis - Non-IFRS Financial Measures"* below.

This discussion contains forward-looking statements and information. The actual results, performance and achievements could differ materially from those implied by these forward-looking statements as a result of various factors, including those discussed in the MD&A dated March 14, 2024 under "*Risk Factors*". See "*Forward-Looking Information*".

The discussion and analysis in this MD&A are based upon information available to management as of May 9, 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, May 9, 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 1,800 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 manufactures bonded neodymium-iron-boron ("**NdFeB**" or "**neo**") powders and bonded permanent magnets. With over thirty years of manufacturing experience, Magnequench is the world leader in the production of magnetic powders used in bonded and hot-deformed fully dense neo magnets. These powders are formed through Magnequench's market-leading technology related to the development, processing, and manufacturing of magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench Powder using a blend of various inputs. These powders are used in the production of bonded permanent magnets that are components in automotive motors, pumps, micro motors, traction motors, sensors and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

Magnequench also produces bonded magnets ("**Magnequench Magnets**") made from its various Magnequench powder grades, which are used in applications substantially similar to those listed above. Magnequench Magnets are produced by combining Magnequench powders with a binder to form a compound, then compacting pressing, curing and coating the compound into a final magnet shape.

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 per share information)	Three Months Ended March 31, 2024	2023	2022
Revenue			
Magnequench	$ 45,480	$ 55,165	$ 74,015
C&O	40,513	51,289	67,662
Rare Metals	37,278	29,076	29,062
Corporate / Eliminations	(1,176)	—	(4,457)
Consolidated Revenue	**$ 122,095**	**$ 135,530**	**$ 166,282**
Operating Income (Loss)			
Magnequench	$ 3,384	$ 955	$ 10,236
C&O	(2,104)	(6,126)	18,477
Rare Metals	8,800	5,832	3,723
Corporate / Eliminations	(4,132)	(4,658)	(3,751)
Consolidated Operating Income (Loss)	**$ 5,948**	**$ (3,997)**	**$ 28,685**
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") [(1)]			
Magnequench	$ 6,112	$ 3,256	$ 12,778
C&O	(380)	(4,562)	19,910
Rare Metals	9,238	6,164	4,341
Corporate / Eliminations	(4,210)	(4,071)	(3,911)
Consolidated Adjusted EBITDA	**$ 10,760**	**$ 787**	**$ 33,118**
Net Income (Loss)	**$ 849**	**$ (10,700)**	**$ 22,701**
Attributable to:			
Equity holders of Neo	873	(10,454)	22,350
Non-controlling interest	(24)	(246)	351
Earnings (Loss) per share attributable to equity holders of Neo			
Basic	$ 0.02	$ (0.23)	$ 0.55
Diluted	$ 0.02	$ (0.23)	$ 0.54
Adjusted Net (Loss) Income [(2)]	**$ 393**	**$ (8,981)**	**$ 23,465**
Attributable to:			
Equity holders of Neo	417	(8,735)	23,114
Non-controlling interest	(24)	(246)	351
Adjusted (loss) earnings per share attributable to equity holders of Neo [(2)]:			
Basic	$ 0.01	$ (0.19)	$ 0.57
Diluted	$ 0.01	$ (0.19)	$ 0.56
Cash spent on property, plant and equipment and intangible assets	$ 15,979	$ 3,512	$ 6,782
Cash taxes paid	$ 7,513	$ 5,261	$ 1,365
Dividends paid to shareholders	$ 3,084	$ 3,379	$ 3,183
Repurchase of common shares under Normal Course Issuer Bid	$ 2,250	$ —	$ —

	March 31	December 31	
	2024	2023	2022
Cash and cash equivalents	$ 101,689	$ 86,895	$ 147,491
Bank advances & other short-term debt	$ —	$ —	$ 17,288
Current & long-term debt	$ 49,400	$ 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 (Loss) Income and Adjusted (Loss) Earnings per Share.

Highlights for three months ended March 31, 2024

Consolidated Results

- For the three months ended March 31, 2024, consolidated revenues of $122.1 million were 9.9% lower than consolidated revenues of $135.5 million for the three months ended March 31, 2023. Operating income for the three months ended March 31, 2024 was $5.9 million, an increase of $9.9 million compared to an operating loss of $4.0 million in the prior year. Adjusted EBITDA[1] for the three months ended March 31, 2024 was $10.8 million, an increase of $10.0 million compared to the same period of the prior year with all business units delivering year-over-year increases in Adjusted EBITDA[1].

- Rare earth prices continued to decline sharply from December 2023 through March 2024. Specifically, in the first quarter of 2024, prices for rare earth magnetic elements neodymium ("**Nd**") and praseodymium ("**Pr**") declined by approximately 20% while prices for dysprosium ("**Dy**") and terbium ("**Tb**") declined by approximately 30%. 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). This impact is primarily in the C&O rare earth separation business and to a lesser extent in the Magnequench business. See further discussion on impact of volatility of rare earth prices in section 5.5 under the heading *"Impact of Rare Earth Prices on Margin and Mitigating Actions"*.

- For the three months ended March 31, 2024, Magnequench volume was up year over year, driven by continued growth in magnet volumes and recovery in traction motor volumes. C&O volumes were down compared to the prior year, driven by the ramp down of the light rare earth separation facility in China and timing of shipments within the environmental emissions catalyst business. Rare Metals saw strong first quarter hafnium volumes and margins with a revival in spot sales and 2024 pricing going into effect on long-term contracts.

- Neo remains focused on executing its two major capital projects with the relocation, upgrade and modernization of its environmental emissions catalyst business in China and its new sintered magnet plant in Europe. In addition, Neo has taken strategic actions over the last year, including the acquisition of UK company SGTec and the closure of hydrometallurgical processing in Silmet, Estonia. In April 2024, Neo shut down its light rare earth separation facility in China. These actions are part of Neo's sourcing and manufacturing strategy with the goal of focusing the business on downstream value add operations, increasing sourcing optionality, improving return on capital employed, and reducing earnings volatility. Neo will continue to drive actions across the portfolio to further deliver improvements in these areas.

- 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. Despite near-term market dynamics driving slower electric vehicle growth and overall demand softness for magnetic products, these long-term macro trends are expected to drive substantial growth in end markets and technologies where Neo's advanced industrial materials are integral. With Neo's extensive experience as a rare earth magnetics company operating both inside and outside of China, Neo is well positioned to take advantage of these market trends.

Magnequench Segment

- For the three months ended March 31, 2024, revenues in the Magnequench segment were $45.5 million, compared to $55.2 million in the same period of 2023; a decrease of $9.7 million. Operating income in the Magnequench segment for the three months ended March 31, 2024 was $3.4 million, an increase of $2.4 million when compared to the three months ended March 31, 2023. Adjusted EBITDA[1] in the Magnequench segment for the three months ended March 31, 2024 was $6.1 million, compared to $3.3 million in the three months ended March 31, 2023; an increase of $2.9 million.

- For the three months ended March 31, 2024, Magnequench segment volumes of 1,213 tonnes saw an increase of 22.9% compared to the same period in 2023, driven by growth in the magnet business and recovery in traction motor volumes. The magnet business has been a strategic focus area for Magnequench with volume gains driven by growth in automotive applications and the acquisition of SGTec. Magnetic powders in traction motor applications also delivered substantial growth with first quarter volume up more than 300% compared to the same period in 2023 as the market recovers back to run rate levels with additional upside driven by customer inventory build ahead of new vehicle model launch. Although the business had a strong quarter, volumes remain below expectations due to demand softness within the remaining portion of the magnetic powder business; most notably, European circulation pump demand and home appliance applications.

- Despite continued declines in rare earth prices, Magnequench margins remain in line with expectations. The business continues to utilize pass-through pricing provisions for material costs to mitigate the impact of lead-lag from declining rare earth prices. See further discussion in section 5.5 under the heading *"Impact of Rare Earth Prices on Margins and Mitigating Actions"*. After notable cost actions in 2023 (including reducing conversion costs by approximately 20%), Magnequench continues to make progress on improving operational efficiency (i.e. improving yield rates, driving process efficiency through automation, and reducing utility costs) to further drive down conversion costs.

- Magnequench remains focused on growing its bonded magnet and traction motor business, integrating and growing SGTec, and launching its European sintered magnet plant which will be a long-term growth catalyst for the business. Magnequench initiated construction on the European sintered magnet plant in June 2023; the plant will be the first sintered 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 5.3.1 under the heading *"Sintered Magnet Plant in Europe"*. Magnequench continues to be well positioned to benefit in the growth of permanent magnets offering a dual supply of permanent magnetic materials both inside and outside of China.

Chemicals & Oxides ("C&O") Segment

- For the three months ended March 31, 2024, revenues in the C&O segment were $40.5 million, compared to $51.3 million in the same period of 2023; a decrease of $10.8 million or 21.0%. Operating loss in the C&O segment for the three months ended March 31, 2024 was $2.1 million, compared to $6.1 million in the same period of 2023. Adjusted EBITDA[1] was $0.4 million loss for the three months ended March 31, 2024; an improvement of $4.2 million when compared to a loss of $4.6 million in the same period of 2023.

- For the three months ended March 31, 2024, the C&O rare earth separation business continued to face declining rare earth prices which has been the primary headwind for the business. The rapid declines in rare earth prices during the first quarter 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 5.5 under the heading *"Impact of Rare Earth Prices on Margins and Mitigating Actions"*. The business also saw reduced demand for high value rare earth elements such as high purity Dy. These headwinds drove C&O rare earth separation to deliver negative gross margins in the first quarter of 2024, putting pressure on overall C&O earnings.

- Neo continues its ongoing strategic assessment of assets across the portfolio evaluating operating strategy and financial performance with the goal of improving return on capital, and reducing earnings volatility. As part of this process, Neo shut down its light rare earth separation business in Zibo Jiahua Advanced Material Resources Co., Ltd. ("**ZAMR**") in April, 2024. In the second quarter of 2024, Neo anticipates taking a net, non-cash charge of less than $2.0 million for impairment of assets. In addition, this action is expected to return cash to the business with no expected adverse impact on Neo Adjusted EBITDA[1]. See further discussion in section 5.2 under the heading *"ZAMR Facility Closure"*.

- The environmental emissions catalyst business delivered volumes and margins moderately below prior year due to timing of shipments. This business has been stable and continues to perform in line with expectations. The environmental protective water treatment solutions business delivered its fifth consecutive quarter of volume growth and the strongest gross margin performance since inception of the business.

- The C&O business is focused on executing new product development within mixed oxides, upstream sourcing of raw materials, and relocation of its Neo Jia Hua Advanced Materials (Zibo) Co., Ltd. ("**NAMCO**") facility in China which began qualifying samples for customers in the first quarter of 2024. The new facility will benefit from an improved manufacturing layout, automation, and environmental management systems. With the project nearing completion and purchase orders issued for over 90% of project spend, the total forecasted capital spend for the NAMCO project has been reduced to $70.0 million ($5.0 million below budget). See further discussion in section 5.1 under the heading *"NAMCO Relocation, Upgrade and Modernization"*.

Rare Metals Segment

- For the three months ended March 31, 2024, revenues in the Rare Metals segment were $37.3 million, compared to $29.1 million in the same period of 2023; an increase of $8.2 million or 28.2%. Operating income for the three months ended March 31, 2024 was $8.8 million, compared to $5.8 million in the same period of 2023; an increase of $3.0 million. Adjusted EBITDA(1) for the three months ended March 31, 2024 was $9.2 million, compared to $6.2 million in the same period of 2023; an increase of $3.1 million or 49.9%.

- With a healthy order book of contracted hafnium volumes entering 2024, the Rare Metals segment delivered strong financial performance in the first quarter. Hafnium volumes saw a revival in spot sales after two quarters of minimal spot sales in the second half of 2023. In addition, 2024 pricing terms went into effect on long-term contracts enabling the business to deliver solid margins. The hafnium business remains well positioned for 2024 with inventory secured to deliver against contracted volumes. This will also allow the business to continue to capitalize on spot sales opportunities at market prices while working down inventory levels delivering additional operating cash flow for the business.

- The Rare Metals segment continues to focus on executing its manufacturing strategy with its plant in Silmet, Estonia. In the fourth quarter of 2023, the business halted the energy-intensive hydrometallurgical processing of niobium and tantalum bearing ores, shifting focus on downstream, value-add operations while improving the environmental footprint of the plant. In the first quarter, this focus on downstream metal making began to deliver improved operating efficiency through higher machine utilization and yield, which translated to the facility delivering its strongest operating margins in over 4 years. In addition, solid progress was made on securing long-term sourcing arrangements for oxides and recycled materials, and inventory reductions are expected through the remainder of 2024.

Cash and Other Highlights for the three months ended March 31, 2024

- Neo's balance sheet remains strong, underscoring its sound financial position. As at March 31, 2024, Neo had $101.7 million in cash, $0.1 million in restricted cash, offset by $49.4 million drawn from its Export Development Canada ("**EDC**") credit facility, resulting in net cash of $52.3 million. Neo repaid $1.5 million of term loan facilities at SGTec in the three months ended March 31, 2024.

- Cash from operating activities was $11.3 million for the three months ended March 31, 2024. Cash generation was driven by working capital performance, specifically, reductions of inventory as Neo continued to convert its higher-cost rare earth feedstock; as well as release of strategic inventory held to support contracted hafnium volumes in the first quarter of 2024.

- Neo invested $16.0 million in capital expenditures for the three months ended March 31, 2024, compared to $3.5 million for the three months ended March 31, 2023. Of this amount, $8.6 million was related to NAMCO relocation, upgrade and modernization, $1.1 million of borrowing costs related to the EDC credit facility, and $6.0 million for the establishment of the sintered magnet manufacturing plant in Europe.

- Neo has shown strong commitment to returning capital to shareholders. For the three months ended March 31, 2024, Neo repurchased and cancelled 398,871 shares for $2.3 million, completing the Normal Course Issuer Bid ("**NCIB**") program which began in June 2023. In addition, Neo paid dividends to its shareholders of $3.1 million for the three months ended March 31, 2024.

Expectations for 2024 Financial Performance

- With the first quarter consolidated Adjusted EBITDA[1] of $10.8 million, Neo has had a strong start to the year, despite declining rare earth prices in the first quarter, and maintains an outlook for double-digit percentage Adjusted EBITDA[1] growth for fiscal year 2024 as compared to fiscal year 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 March 31, 2024, there has been no significant impact on Neo's operations.

Neo's facility in Silmet, Estonia, sources the majority of its rare earth feedstock from a Russian supplier. As of the date hereof, however, Neo has not had significant issues securing raw materials. With the assistance of external 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.

4.2 Potential Impact of China Export Restrictions

In August 2023, the Government of China announced export restrictions on gallium causing a sharp upward price trend for gallium outside of China in the second half of 2023. This trend continued into January 2024 with gallium outside of China selling at more than 60% above prices within China. 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 options 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.

On December 21, 2023, China adopted revisions to the Catalogue of Technologies Prohibited or Restricted from Exporting. This update included the addition of rare earth magnet technology. 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 sintered magnet plant in Europe 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 Strategic Initiatives

5.1 NAMCO Relocation, Upgrade and Modernization

Neo has almost completed the relocation, upgrade and modernization of its environmental emissions catalyst manufacturing facility to a newly built site in a Zibo industrial park, equipped with advanced infrastructure, transportation, and wastewater treatment capabilities.

The nearly completed new facility began quality assurance testing on manufactured samples for customers during the first quarter. Subject to these customer qualifications and approvals, NAMCO is expected to be running at full production levels in the second half of 2024. Neo's initial budget for the expansion, relocation, upgrade and modernization of the NAMCO production facility was $75.0 million. With the project nearing completion, and purchase orders issued for over 90% of project spend, the current estimated project spend is approximately $70.0 million ($5.0 million below budget). Neo spent $8.6 million (RMB 62.4 million) on the project during the first quarter of 2024 and $42.2 million (RMB 296.2 million before capitalized interest), since commencement of the relocation efforts. The majority of the remaining cost to complete of $27.8 million is expected to be spent in 2024. In addition, Neo built 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, upgrade and modernization costs. In January 2024, Neo was advanced the second $25.0 million tranche. As of March 31, 2024, a total of $50.0 million had been drawn against this facility.

5.2 ZAMR Facility Closure

In April 2024, Neo shut down its ZAMR light rare earth separation facility in Zibo, China. This action is expected to improve return on capital employed and reduce earnings volatility, as the rare earth separation business is most exposed to changes in rare earth prices. The ZAMR facility delivered negative gross margin in fiscal year 2022 and 2023, and shutdown is not expected to adversely impact Neo's Adjusted EBITDA[(1)] and is expected to be beneficial to the overall cash position for Neo. In addition, this action is in line with Neo's strategy of shifting focus to higher margin, downstream production and improving geographic diversity of assets and earnings.

The majority of fixed assets have been fully depreciated and inventory on hand will be sold in its current state or transferred to Neo's environmental emission catalyst business. In the second quarter of 2024, Neo anticipates taking a net, non-cash charge of less than $2.0 million for impairment of assets. In the near term, Neo intends to temporarily transfer the affected employees to support the new environment emission catalyst facility (NAMCO) and has entered negotiations with third parties regarding the continued employment of the ZAMR employees involved in rare earth separation.

5.3 Magnet Manufacturing Footprints in Europe

5.3.1 Sintered Magnet Plant in Europe

Neo is investing in a new facility to manufacture and distribute sintered 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 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 Silmet, Estonia. In order to further expand the business's 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 $20.2 million (€18.7 million) from the Government of Estonia under Europe's Just Transition Fund ("**JTF**") for eligible project costs of up to $105.8 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.

The project is on budget and on schedule. Neo estimates that capital spend for Phase 1 of the new sintered magnet facility in Europe will cost approximately $75.0 million (prior to the JTF grant). As of March 31, 2024, Neo capitalized $6.0 million in the first quarter of 2024 and approximately $15.0 million since construction commenced; the majority of the remaining estimated cost to complete of $60.0 million (prior to the JTF grant) is expected to be spent through 2024 into 2025.

5.3.2 Acquisition of SGTec

On April 19, 2023, Neo, through its subsidiary in the UK, Neo Ventures Europe Limited ("**NVEL**"), completed its acquisition of 90% of the outstanding share capital of 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 sintered magnet manufacturing in Europe.

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 is expanding capacity to support volume growth for two major automotive customers driven by volume growth of existing programs; as well as a new recently won program.

5.4 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 Metals 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. 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.

On May 1, 2024, Neo entered into a non-binding Memorandum of Understanding with Meteoric Resources ("**Meteoric**") that provides the framework to negotiate a binding commercial offtake agreement for the supply of mixed rare earth carbonate ("**MREC**") from Meteoric's Caldeira Project to Neo's rare earth separation facility in Silmet, Estonia. Neo is expected to purchase 3,000 tonnes rare earth oxide ("**TREO**") per year from the Caldeira Project's initial production and hold a right of first refusal to purchase additional material when the Caldeira Project produces more than 6,000 TREO per year. Annual offtake of 3,000 TREO from the Caldeira Project could supply Neo with as much as 900 tonnes of Nd-Pr oxide and 30 tonnes of Dy-Tb oxide, combined, to supply Neo's sintered magnet manufacturing plant under development in nearby Narva, Estonia. Meteoric expects to obtain a construction permit by the fourth quarter of 2025 and aims to commence MREC production during the second half of 2027.

Other previously announced 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 Silmet, 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 Silmet, Estonia. This has allowed 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 has increased sourcing optionality while reducing working capital requirements.

5.5 Impact of Rare Earth Prices on Margins and Mitigating Actions

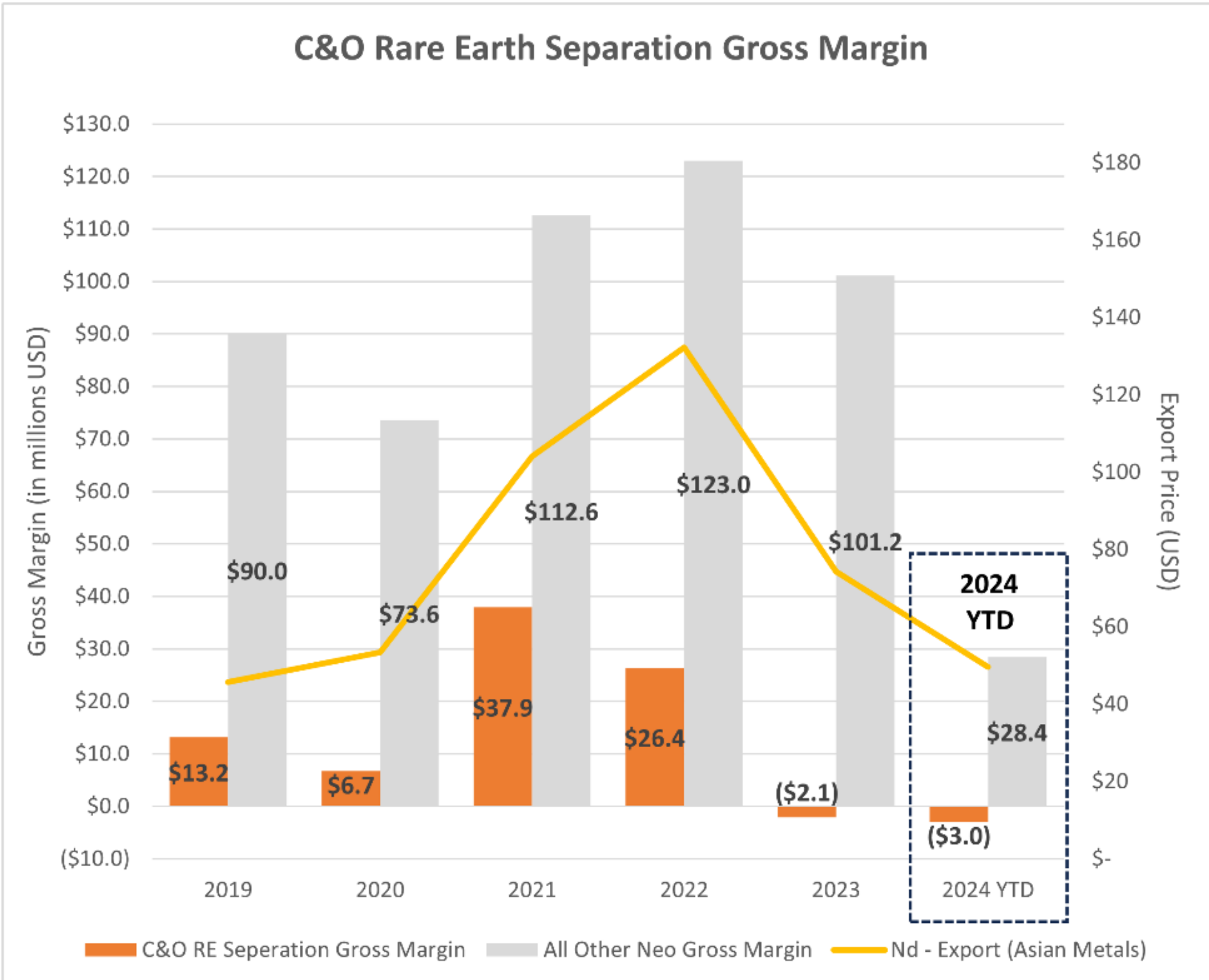
Both Magnequench and C&O have made strategic efforts to reduce the quarterly fluctuations in reported results related to rare earth price movements. These include encouraging more contracts to have pass-through provisions, matching more contract durations to overall inventory turns and increasing overall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

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


C&O Rare Earth Separation Gross Margin
Gross Margin (in millions USD)
Export Price (USD)
$130.0
$120.0
$110.0
$100.0
$90.0
$80.0
$70.0
$60.0
$50.0
$40.0
$30.0
$20.0
$10.0
$0.0
($10.0)
$180
$160
$140
$120
$100
$80
$60
$40
$20
$-
$90.0
$73.6
$112.6
$123.0
$101.2
$28.4
$13.2
$6.7
$37.9
$26.4
($2.1)
($3.0)
2024
YTD
2019
2020
2021
2022
2023
2024 YTD
C&O RE Seperation Gross Margin
All Other Neo Gross Margin
Nd - Export (Asian Metals)

6. Consolidated Results of Operations

Comparison of the three months ended March 31, 2024 to the three months ended March 31, 2023

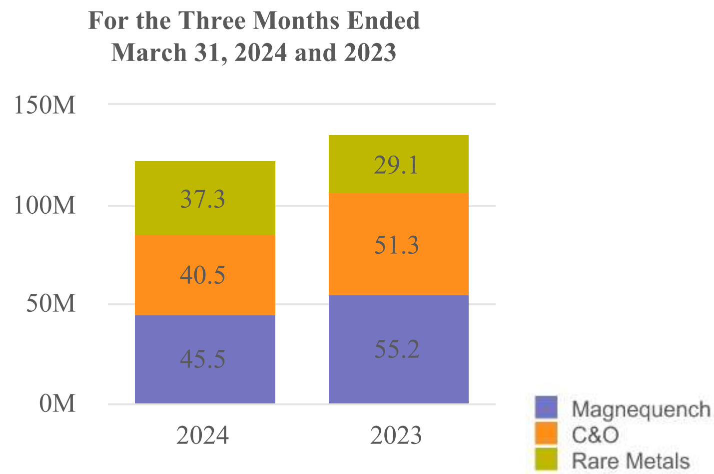
($000s)	Three Months Ended March 31,	
	2024	**2023**
Revenue	122,095	135,530
Cost of sales		
Cost excluding depreciation and amortization	94,748	116,621
Depreciation and amortization	1,930	2,168
Gross profit	**25,417**	**16,741**
Expenses		
Selling, general and administrative	14,642	14,871
Share-based compensation	(96)	850
Depreciation and amortization	1,728	1,766
Research and development	3,195	3,251
	19,469	20,738
Operating income (loss)	**5,948**	**(3,997)**
Other income (expense)	3,679	(478)
Finance cost, net	(1,340)	(4,012)
Foreign exchange loss	(722)	(580)
Income (loss) from operations before income taxes and equity income of associates	**7,565**	**(9,067)**
Income tax expense	(4,341)	(1,610)
Income (loss) from operations before equity loss of associates	**3,224**	**(10,677)**
Equity loss of associates (net of income tax)	(2,375)	(23)
Net income (loss)	**$ 849**	**$ (10,700)**
Attributable to:		
Equity holders of Neo Performance Materials Inc.	873	$ (10,454)
Non-controlling interest	(24)	(246)
	$ 849	**$ (10,700)**
Earnings (loss) per share attributable to equity holders of Neo Performance Materials Inc.:		
Basic	$ 0.02	$ (0.23)
Diluted	$ 0.02	$ (0.23)

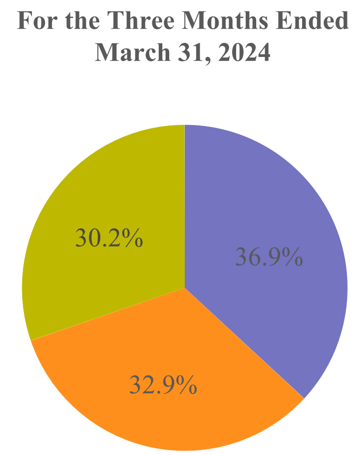
Revenue

Neo's consolidated revenue for the three months ended March 31, 2024 was $122.1 million, compared to $135.5 million for the three months ended March 31, 2023; a decrease of $13.4 million or 9.9%.

($000s)	Three Months Ended March 31,			
	2024	**2023**	**Change**	**%**
Magnequench	$ 45,480	$ 55,165	$ (9,685)	(17.6%)
C&O	40,513	51,289	(10,776)	(21.0%)
Rare Metals	37,278	29,076	8,202	28.2%
Eliminations	(1,176)	—	(1,176)	(100.0%)
Consolidated Revenue	**$ 122,095**	**$ 135,530**	**$ (13,435)**	(9.9%)

Revenue by segment before inter-segment eliminations [1]





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

Inter-segment revenue for the three months ended March 31, 2024 was $1.2 million, compared to nil for the three months ended March 31, 2023. These have been eliminated on consolidation from C&O segment revenue as C&O sold product to Magnequench in the respective periods. The products sold to Magnequench are potential marketable third-party sales and are generally sold at fair market value.

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

Cost of sales

Consolidated cost of sales, excluding depreciation and amortization, for the three months ended March 31, 2024 was $94.7 million or 77.6% of revenue, compared to $116.6 million or 86.0% of revenue in the same period of the prior year. Cost of sales, excluding depreciation and amortization, as a percentage of revenue decreased mainly due to decreased rare earth commodity prices and product mix within the business segments.

Consolidated depreciation and amortization in cost of sales were $1.9 million for the three months ended March 31, 2024, compared to $2.2 million for the three months ended March 31, 2023. Consolidated depreciation and amortization in cost of sales for the three months ended March 31, 2024 decreased due to lower carrying values of property, plant and equipment as some assets were fully depreciated, specifically the property, plant and equipment in Neo's light rare earth separation facility in China (ZAMR), which were subjected to accelerated amortization in 2023. This decrease was partly offset by the addition of SGTec's property, plant and equipment through the acquisition in April 2023.

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

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

Neo's SG&A expense consists primarily of personnel and related costs, including freight, legal, accounting and other professional fees, and information technology costs. For the three months ended March 31, 2024, SG&A expense of $14.6 million decreased by $0.2 million when compared to the three months ended March 31, 2023. Various cost savings initiatives implemented at Neo have more than offset the additional SG&A expense contributed by the acquisition of SGTec.

Share-based compensation

For the three months ended March 31, 2024, share-based compensation expense was a recovery of $0.1 million, compared to expense of $0.9 million for the three months ended March 31, 2023.

Depreciation and amortization

Depreciation and amortization unrelated to production for the three months ended March 31, 2024 was $1.7 million, comparable to $1.8 million for the three months ended March 31, 2023.

R&D

For the three months ended March 31, 2024, R&D expense was $3.2 million, compared to $3.3 million in the corresponding period in 2023. 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 $3.7 million for the three months ended March 31, 2024, compared to other expense of $0.5 million for the three months ended March 31, 2023. Included in other income (expense) for the three months ended March 31, 2024 was a reversal of special reserve to cover potential liabilities related to employee safety incidents or workplace accidents at C&O's ZAMR facility in China. This reserve was set up since inception of the light rare earth separation business and has been released as Neo has wound down operations. In addition, other income (expense) includes charges for estimated damage claims related to legal proceedings and estimated costs for the disposal of existing naturally occurring radioactive materials ("**NORM**") as well as NORM generated during the quarter.

Finance cost, net

Finance cost, net, for the three months ended March 31, 2024 was $1.3 million, compared to $4.0 million for the three months ended March 31, 2023. Neo's finance costs, 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, net.

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

	Three Months Ended March 31,	
	2024	2023
Change in fair value of equity securities	$ 99	$ 357
Change in fair value of derivative liabilities	1,436	3,420
Accretion expense on lease liabilities	66	42
Interest earned on bank deposits net of interest paid on bank advances	(303)	(569)
Interest expense on EDC credit facility	—	580
Interest expense on Estonia debt facility	3	73
Interest expense on China debt facility	—	38
Interest expense on German debt facility	29	71
Interest expense on Barclays debt facility	10	—
Total	**$ 1,340**	**$ 4,012**

For the three months ended March 31, 2024, $1.1 million in interest expense relating to the EDC facility was capitalized into Property, Plant and Equipment in accordance with IAS 23 *Borrowing Costs*. Neo began capitalizing the EDC facility interest expenses during the second quarter of 2023.

Income tax expense

For the three months ended March 31, 2024, Neo had an income tax expense of $4.3 million that was unfavourably impacted by $1.0 million due to foreign exchange fluctuations on certain non-monetary assets, and $1.4 million due to losses and temporary differences for which there are no recognized tax benefits.

For the three months ended March 31, 2023, Neo had an income tax expense of $1.6 million that was unfavourably impacted by $3.1 million due to losses and temporary differences for which there are no recognized tax benefits and $0.9 million due to non-deductible finance costs related to the re-measurement of the Buss & Buss derivative liability.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of $17.5 million for the three months ended March 31, 2024, compared to $5.0 million for the three months ended March 31, 2023.

The planned relocation, upgrade and modernization of Neo's environmental emissions catalyst production facility, NAMCO, is nearly complete. A total of $42.2 million (RMB 296.2 million) has been spent since inception of the project including approximately $4.4 million to secure a 50 year land lease at the new site. Of this, $8.6 million (RMB 62.4 million) was spent during the three months ended March 31, 2024. Additionally, $1.1 million in interest expense relating to the EDC facility was capitalized in Construction in Progress for the three months ended March 31, 2024.

For the three months ended March 31, 2024, Neo has also capitalized approximately $6.0 million on the establishment of the sintered magnet manufacturing capability in Europe.

The remainder of 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 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.

In October 2020, Rhodia Operations refiled a lawsuit, in the Ji'nan Intermediate Court, alleging ZAMR had infringed Chinese patent ZL 96196505.3. 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.

In April of 2024, MP Materials Corp. and certain of its affiliates (collectively, "**MP Materials**") filed a lawsuit in the U.S. Federal Court in the District of Delaware, alleging that Neo Water Treatment LLC ("**Neo Water Treatment**") misappropriated trade secrets arising out of the MP Materials purchase of Molycorp Minerals in 2016 and disclosed the same in US Patent No.10,988,395 (and related counterparts) and US Patent No.11,111,161 (and related counterparts). Neo Water Treatment denies the allegations set forth by MP Materials and intends to vigorously defend the action.

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	$41.0 million (€38.0 million)
European patent 0955267 (1)	Germany	$0.6 million (€0.6 million)
European patent 1527018	Germany	$0.7 million
European patent 2007682	Germany	Not specified
US Patent 10,988,395	United States	Not specified
US Patent 11,111,161	United States	Not specified

Notes:

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

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

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

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

7. Non-IFRS Financial Measures

This MD&A makes reference to certain non-IFRS financial measures and ratios. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS, and may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS financial measures by providing further understanding of Neo's results of operations from management's perspective. Neo's definitions of non-IFRS measures used in this MD&A may not be the same as the definitions for such measures used by other companies in their reporting. Non-IFRS measures have limitations as analytical tools and should not be considered in isolation nor as a substitute for analysis of Neo's financial information reported under IFRS. Neo uses non-IFRS financial measures and non-IFRS ratios, including "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Net Income", "EBITDA", "Adjusted Earnings per Share", "Free Cash Flow", and "Free Cash Flow Conversion" to provide investors with supplemental measures of its base-line operating performance and to eliminate items that have less bearing on operating performance or operating conditions, thus highlighting trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. Neo believes that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of issuers. Neo's management also uses non-IFRS financial measures and non-IFRS ratios to facilitate operating performance comparisons from period to period. Neo defines such financial measures and ratios as follows:

Non-IFRS financial measures

"**Adjusted EBITDA**" is defined as EBITDA before equity income (loss) in associates, other income (expense), foreign exchange (gain) loss, share and value-based compensation, impairment of long-lived assets, and other costs (recoveries);

"**Adjusted Net Income (Loss)**" is defined as net income or loss before foreign exchange (gain) loss, share and value-based compensation, impairment of assets, other costs (recoveries), and other items included in other expense (income), net of the related tax effects;

"**EBITDA**" is defined as net income (loss) before finance costs (income), net, income tax expense, depreciation and amortization included in cost of sales, and depreciation and amortization included in operating expenses;

"**Free Cash Flow**" is defined as Adjusted EBITDA less capital expenditures;

"**Free Cash Flow Conversion**" is defined as Free Cash Flow divided by Adjusted EBITDA

Non-IFRS ratios

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

"**Adjusted Earnings per Share**" is defined as Adjusted Net Income attributable to equity holders of Neo divided by the weighted average number of common shares outstanding;

Management believes that the use of these non-IFRS financial measures provides a more consistent measure of underlying operating performance, with comparability among periods that investors may find useful. The exclusion of certain adjustments does not imply that they are non-recurring.

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

($000s, except volume)	**Three Months Ended March 31, 2024**	**2023**	**Change**	**%**
Net income (loss)	**$ 849**	**$ (10,700)**	**$ 11,549**	107.9%
Add back (deduct):				
Finance cost, net	1,340	4,012	(2,672)	
Income tax expense	4,341	1,610	2,731	
Depreciation and amortization included in cost of sales	1,930	2,168	(238)	
Depreciation and amortization included in operating expenses	1,728	1,766	(38)	
EBITDA	**10,188**	**(1,144)**	**11,332**	990.6%
Adjustments to EBITDA:				
Other (income) expense [1]	(3,679)	478	(4,157)	
Foreign exchange loss [2]	722	580	142	
Equity loss of associates	2,375	23	2,352	
Share-based compensation [3]	(96)	850	(946)	
Project start-up & transition costs [4]	1,250	—	1,250	
Adjusted EBITDA[I]	**$ 10,760**	**$ 787**	**$ 9,973**	1,267.2%
Adjusted EBITDA Margins[II]	*8.8%*	*0.6%*		
Less:				
Capital expenditures [5]	$ 17,477	$ 5,016	$ 12,461	248.4%
Free Cash Flow	**$ (6,717)**	**$ (4,229)**	**$ (2,488)**	(58.8%)
Free Cash Flow Conversion [6]	*(62.4%)*	*(537.4%)*		
Revenue	$ 122,095	$ 135,530	$ (13,435)	(9.9%)
Sales volume (tonnes)	3,082	2,934	148	5.0%

Notes:

(1) Represents other (income) expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. In addition, other income for the three months ended March 31, 2024 includes a reversal of special reserve to cover potential liabilities related to employee safety incidents or workplace accidents at C&O's ZAMR facility in China. This reserve was set up since inception of the light rare earth separation business and has been released as Neo has wound down operations. These income and expense are not indicative of Neo's ongoing activities.

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

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

(4) These represent primarily legal, professional advisory fees and other transaction costs related to sintered magnet start-up cost, as well as transition cost during qualification start-up of NAMCO facility and the winding down of ZAMR. Neo has removed these charges to provide comparability with historic periods.

(5) Includes cash and non-cash capital expenditures of $16.6 million and right-of-use assets of $0.9 million for the three months ended March 31, 2024. For the three months ended March 31, 2023, the amount was comprised of capital expenditures of $3.5 million and right-of-use assets of $1.5 million.

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

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

($000s)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Net income (loss)	**$ 849**	**$ (10,700)**
Adjustments to net income (loss):		
Foreign exchange loss [1]	722	580
Share-based compensation [2]	(96)	850
Project start-up & transition cost [3]	1,250	—
Other items included in other (income) expense [4]	(3,048)	407
Tax impact of the above items	716	(118)
Adjusted net income (loss) [II]	**$ 393**	**$ (8,981)**
Attributable to:		
Equity holders of Neo	$ 417	$ (8,735)
Non-controlling interest	$ (24)	$ (246)
Weighted average number of common shares outstanding:		
Basic	41,831,695	45,196,921
Diluted	42,494,125	45,196,921
Adjusted income (loss) per share attributable to equity holders of Neo:		
Basic and diluted	$ 0.01	$ (0.19)

Notes:

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

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

(3) These represent primarily legal, professional advisory fees and other transaction costs related to sintered magnet start-up cost, as well as transition cost during qualification start-up of NAMCO facility and the winding down of ZAMR. Neo has removed these charges to provide comparability with historic periods.

(4) Represents other (income) expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. In addition, other income for the three months ended March 31, 2024 includes a reversal of special reserve to cover potential liabilities related to employee safety incidents or workplace accidents at C&O's ZAMR facility in China. This reserve was set up since inception of the light rare earth separation business and has been released as Neo has wound down operations. These income and expense are not indicative of Neo's ongoing activities.

8. Discussion and Analysis of Reportable Segments

The analysis of Neo's reportable segments, which follows the discussion of its consolidated results, presents operating results on a gross basis (i.e., before intercompany eliminations).

8.1 Magnequench

($000s, except volume)	**Three Months Ended March 31,**			
	2024	**2023**	**Change**	**%**
Operating income	**$ 3,384**	**$ 955**	**$ 2,429**	254.3%
Net (loss) income	**$ (313)**	**$ 1,043**	**$ (1,356)**	(130.0%)
Add back (deduct):				
Finance cost (income), net	202	(95)	297	
Income tax expense	579	121	458	
Depreciation and amortization included in cost of sales	906	828	78	
Depreciation and amortization included in operating expenses	1,324	1,330	(6)	
EBITDA	**2,698**	**3,227**	**(529)**	(16.4%)
Other (income) expense [1]	(492)	150	(642)	
Foreign exchange loss (gain) [2]	1,300	(288)	1,588	
Equity loss of associates	2,108	23	2,085	
Share-based compensation [3]	18	144	(126)	
Project start-up & transition costs [4]	480	—	480	
Adjusted EBITDA[I]	**$ 6,112**	**$ 3,256**	**$ 2,856**	87.7%
Adjusted EBITDA Margins[II]	13.4%	5.9%		
Revenue	$ 45,480	$ 55,165	$ (9,685)	(17.6%)
Sales volume (tonnes)	1,213	987	226	22.9%

Notes:

(1) Represents other income resulting from non-operational related activities. These income and expense are not indicative of Neo's ongoing activities.

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

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

(4) These represent primarily legal, professional advisory fees and other transaction costs related to sintered magnet start-up cost. Neo has removed these charges to provide comparability with historic periods.

8.2 Chemicals & Oxides

($000s, except volume)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Change	%
Operating loss	**$ (2,104)**	**$ (6,126)**	**$ 4,022**	65.7%
Net income (loss)	**$ 975**	**$ (7,245)**	**$ 8,220**	113.5%
Add back (deduct):				
Finance (income) cost, net	(264)	631	(895)	
Income tax expense (benefit)	1,133	(318)	1,451	
Depreciation and amortization included in cost of sales	689	1,126	(437)	
Depreciation and amortization included in operating expenses	243	283	(40)	
EBITDA	**2,776**	**(5,523)**	**8,299**	150.3%
Other (income) expense [(1)]	(3,176)	358	(3,534)	
Foreign exchange (gain) loss [(2)]	(1,039)	448	(1,487)	
Equity loss of associates	267	—	267	
Share-based compensation [(3)]	22	155	(133)	
Project start-up & transition costs [(4)]	770	—	770	
Adjusted EBITDA[(I)]	**$ (380)**	**$ (4,562)**	**$ 4,182**	91.7%
Adjusted EBITDA Margins[(II)]	(0.9%)	(8.9%)		
Revenue	$ 40,513	$ 51,289	$ (10,776)	(21.0%)
Sales volume (tonnes)	1,802	1,849	(47)	(2.5%)

Notes:

(1) Represents other (income) expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. In addition, other income for the three months ended March 31, 2024 includes a reversal of special reserve to cover potential liabilities related to employee safety incidents or workplace accidents at C&O's ZAMR facility in China. This reserve was set up since inception of the light rare earth separation business and has been released as Neo has wound down operations. These income and expense are not indicative of Neo's ongoing activities.

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

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

(4) These represent primarily transition cost during qualification start-up of NAMCO facility and the winding down of ZAMR. Neo has removed these charges to provide comparability with historic periods.

8.3 Rare Metals

($000s, except volume)	Three Months Ended March 31,			
	2024	**2023**	**Change**	%
Operating income	**$ 8,800**	**$ 5,832**	**$ 2,968**	50.9%
Net income (loss)	**$ 5,670**	**$ (444)**	**$ 6,114**	1,377.0%
Add back (deduct):				
Finance cost, net	1,218	3,563	(2,345)	
Income tax expense	2,633	1,806	827	
Depreciation and amortization included in cost of sales	335	214	121	
Depreciation and amortization included in operating expenses	83	68	15	
EBITDA	**9,939**	**5,207**	**4,732**	90.9%
Other income (1)	(11)	(30)	19	
Foreign exchange (gain) loss (2)	(710)	936	(1,646)	
Share-based compensation (3)	20	51	(31)	
Adjusted EBITDA(I)	**$ 9,238**	**$ 6,164**	**$ 3,074**	49.9%
Adjusted EBITDA Margins(II)	24.8%	21.2%		
Revenue	$ 37,278	$ 29,076	$ 8,202	28.2%
Sales volume (tonnes)	87	98	(11)	(11.2%)

Notes:

(1) Represents other income resulting from non-operational related activities. These income and expense are not indicative of Neo's ongoing activities.

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

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

9. Summary of Consolidated Quarterly Results

($000s, except for earnings per share information)	2024	2023				2022		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**$122,095**	**$128,668**	**$136,917**	**$170,430**	**$135,530**	**$159,168**	**$146,627**	**$168,221**
Net income (loss) attributable to equity holders of Neo	**873**	**(1,367)**	**3,069**	**310**	**(10,454)**	**(7,291)**	**(3,719)**	**14,607**
Basic EPS	0.02	(0.03)	0.07	0.01	(0.23)	(0.16)	(0.09)	0.36
Diluted EPS	0.02	(0.03)	0.07	0.01	(0.23)	(0.16)	(0.09)	0.36
Operating income (loss)	**5,948**	**(5,470)**	**6,959**	**13,675**	**(3,997)**	**6,727**	**2,239**	**20,963**
Net income (loss)	**849**	**(1,129)**	**3,109**	**329**	**(10,700)**	**(7,162)**	**(3,812)**	**14,691**
Add back (deduct):								
Finance cost (income), net	1,340	(742)	(648)	4,085	4,012	11,116	1,437	2,292
Income tax expense (benefit)	4,341	(39)	4,124	5,988	1,610	2,022	3,775	6,001
Depreciation and amortization included in cost of sales	1,930	2,416	2,674	2,368	2,168	2,361	2,279	2,388
Depreciation and amortization included in operating expenses	1,728	1,813	1,794	1,814	1,766	1,784	1,781	1,853
EBITDA	**10,188**	**2,319**	**11,053**	**14,584**	**(1,144)**	**10,121**	**5,460**	**27,225**
Add back:								
Other (income) expense (1)	(3,679)	(2,776)	(1,011)	171	478	492	448	855
Foreign exchange loss (gain) (2)	722	(4)	190	662	580	(476)	723	(959)
Equity loss (income) of associates	2,375	(780)	1,195	2,440	23	735	(332)	(1,917)
Share and value-based compensation (3)	(96)	1,946	1,024	(82)	850	610	735	957
Impairment of assets	—	1,713	—	—	—	938	—	295
Fair value adjustments to inventory acquired	—	222	423	572	—	—	—	—
Project start-up & transition costs (4)	1,250	457	286	1,828	—	—	—	—
Adjusted EBITDA(I)	**$10,760**	**$ 3,097**	**$13,160**	**$20,175**	**$ 787**	**$12,420**	**$ 7,034**	**$26,456**
Adjusted EBITDA Margins(II)	*8.8%*	*2.4%*	*9.6%*	*11.8%*	*0.6%*	*7.8%*	*4.8%*	*15.7%*

Notes:

(1) Represents other (income) expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. In addition, other income for the three months ended March 31, 2024 includes a reversal of special reserve to cover potential liabilities related to employee safety incidents or workplace accidents at C&O's ZAMR facility in China. This reserve was set up since inception of the light rare earth separation business and has been released as Neo has wound down operations. These income and expense are not indicative of Neo's ongoing activities.

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

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

(4) These represent primarily legal, professional advisory fees and other transaction costs related to sintered magnet start-up cost, as well as transition cost during qualification start-up of NAMCO facility and the winding down of ZAMR. Neo has removed these charges to provide comparability with historic periods.

10. Liquidity and Capital Resources

Three months ended March 31, 2024 compared to three months ended March 31, 2023:

	Three Months Ended March 31,	
($000s)	**2024**	**2023**
Cash flow:		
Cash provided by operating activities	$ 11,330	$ 18,930
Cash used in investing activities	(12,702)	(3,512)
Cash provided by (used in) financing activities	17,491	(18,188)

Financial position - as at	**March 31, 2024**	**December 31, 2023**
Cash and cash equivalents	$ 101,689	$ 86,895
Restricted cash	52	3,357
Property, plant and equipment	133,051	118,918
Total assets	626,626	627,004
Bank advances and other short-term debt	—	—
Current portion of long-term debt	4,667	2,230
Long-term debt	44,733	23,101

As at March 31, 2024, Neo had cash and cash equivalents of $101.7 million plus $0.1 million in restricted cash balance, compared to $86.9 million plus $3.4 million as at December 31, 2023. For the three months ended March 31, 2024, Neo paid $3.1 million in dividends to its shareholders and made NCIB purchases in the amount of $2.3 million. Neo drawn on the second tranche of its EDC credit facility in the amount of $25.0 million for its NAMCO relocation efforts, and repaid $1.5 million of term loan facilities at SGTec in the three months ended March 31, 2024. 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, 2023 were the following:

Inflows
- $14.0 million from operations before net change in working capital, income taxes paid and net interest received;
- $4.7 million net change in working capital;
- $3.3 million released from restricted cash;
- $25.0 million drawn on the EDC credit facility.

Outflows
- $3.1 million of dividends paid to shareholders;
- $2.3 million of shares repurchased under the NCIB;
- $0.4 million of lease payments;

- $1.5 million repayment of term loan facilities at SGTec;
- $16.0 million of other capital spending; and
- $7.5 million of income taxes paid;

Cash Provided by Operating Activities

Net cash provided by operating activities was $11.3 million for the three months ended March 31, 2024, compared to $18.9 million for the three months ended March 31, 2023.

The $4.7 million net change in working capital for the three months ended March 31, 2024, 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 relocation, upgrade and modernization 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, and an increase in other assets. Majority of the increase in other assets were related to the prepayment for property, plant and equipment at Neo's newly constructed sintered magnet plant in Europe as well as prepayment made to secure supply of raw materials.

Cash Used in Investing Activities

For the three months ended March 31, 2024, net cash used in investing activities was $12.7 million, compared to $3.5 million for the three months ended March 31, 2023. The cash used in investing activities was primarily related to $9.7 million (including capitalized interest of $1.1 million relating to the EDC facility) for the NAMCO relocation, upgrade and modernization, $6.0 million on the establishment of the sintered magnet manufacturing plant in Europe, as well as additional capital projects performed at the Tianjin and the Silmet facilities. This cash used in capital projects was offset in part by a decrease in restricted cash of $3.3 million, due to the release of the remaining purchase consideration previously held in escrow for the acquisition of SGTec as well as the release of cash previously held as collateral against Neo's letters of credit.

Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities during the three months ended March 31, 2024 was $17.5 million, compared to $18.2 million net cash used in financing activities for the three months ended March 31, 2023. For the three months ended March 31, 2024, Neo repaid $1.5 million of term loan facilities at SGTec, spent $2.3 million in shares repurchased, distributed $3.1 million in dividends to Neo's shareholders, and spent $0.4 million in lease payments. In the three months ended March 31, 2023, Neo repaid $14.1 million of its bank advances and other short-term debt, distributed $3.4 million in dividends to its shareholders, and spent $0.7 million in lease payments.

($000s)

Cash and cash equivalents by Country	**March 31, 2024**	**December 31, 2023**
China (including Hong Kong)	$ 48,855	$ 39,493
Estonia	9,060	4,239
United States	4,941	8,390
Canada	6,495	7,341
Japan	4,437	3,659
United Kingdom	3,215	2,772
Germany	8,479	7,177
Singapore	4,794	3,921
Barbados	952	354
Thailand	8,658	8,094
Cayman Islands	538	32
Other	1,265	1,423
Total cash and cash equivalents	**$ 101,689**	**$ 86,895**

Approximately $12.9 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, upgrade and modernization of NAMCO facility) and third-party debt service requirements.

11. Contractual Obligations

In the normal course of business, Neo is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancellable.

	Payments Due by Period				
($000s)	1 year	2 - 3 years	4 - 5 years	Thereafter	Total
Accounts payable and other accrued charges	56,718	—	—	—	56,718
Derivative liabilities (1)	37,480	—	1,322	—	38,802
EDC credit facility (2)	4,641	9,286	35,447	—	49,374
Barclays bank loan facilities (3)	26	—	—	—	26
Provisions (4)	771	26,525	—	—	27,296
Lease obligations (5)	2,074	1,350	154	967	4,545
Other liabilities (6)	916	942	61	254	2,173
Total	**$ 102,626**	**$ 38,103**	**$ 36,984**	**$ 1,221**	**$ 178,934**

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 and second tranche of the EDC credit facility term loan.

(3) Represents SGTec's term loan facilities and a sales financing facility with Barclays Bank PLC ("**Barclays**") in the UK for general corporate purposes. During the three months ended March 31, 2024, SGTec repaid $1.5 million (1.1 million GBP) of the outstanding balance, resulting in a nominal amount outstanding as at March 31, 2024. The sales financing facility, for which no balance was outstanding, was terminated during the three months ended March 31, 2024.

(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 March 31, 2024, Neo had $101.7 million of cash and cash equivalents and $0.1 million in restricted cash balance. Neo believes that the remainder of its cash, in addition to cash from operating activities, is available (or sufficient) to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months. Neo considers cash to be "available" to the extent it can be utilized in operating activities, for capital expenditures, for intercompany loans or for repatriation. Neo also maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

12. Normal Course Issuer Bid

On June 14, 2023, Neo announced that the TSX had accepted a notice filed by Neo of its intention to make a NCIB for up to 3,585,011 of its issued and outstanding common shares. In connection with the NCIB, Neo has entered into an automatic share purchase plan with its designated broker to allow for purchases of its shares. 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.

During the three months ended March 31, 2024, Neo repurchased and cancelled 398,871 shares for $2.3 million. Neo has used up the allotment under the NCIB for up to 3,585,011 of its issued and outstanding common shares. There were no shares repurchased for the three months ended March 31, 2023.

13. Subsequent Event

Dividends payable to equity holders of Neo

On May 8, 2024, the Board of Directors declared a quarterly dividend of Cdn $0.10 per common share payable in cash on June 27, 2024, to common shareholders of record at the close of business on June 18, 2024.

14. Off-Balance Sheet Arrangements

As at March 31, 2024, Neo's only off-balance sheet arrangements are purchase obligations.

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

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

For a discussion about the significant estimates used in determining the carrying value of inventory, deferred tax assets, useful lives of depreciable assets, provisions, impairment of tangible and intangible assets, defined benefit pension liability, fair value of financial instruments, share-based compensation and expected credit losses, please refer to Neo's audited annual financial statements for the year ended December 31, 2023. Neo cautions readers that the actual results could differ materially from those estimates and assumptions.

16. Related Party Transactions and Balances

Neo's related parties are its joint venture partners, associates, directors and executive officers.

Neo's related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

16.1 Transactions with associates

On occasion, Magnequench (Tianjin) Co. Ltd. ("**MQTJ**") will supply Magnequench Powders to Toda Magnequench Magnetic Materials Co. Ltd. ("**TMT**") to produce rare earth magnetic compounds. MQTJ will then purchase these compounds back from TMT in its normal course of business. Ganzhou Keli Rare Earth New Material Co., Ltd. ("**Keli**") and GQD process rare earth oxides into metals for inclusion in Magnequench Powders.

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Purchase of goods and services from associates:		
TMT	$ 1,446	$ 1,717
Keli	5,773	6,086
GQD	1,047	2,501
Sales of goods and services to associates:		
TMT	1,177	3,255

16.2 Transactions with joint venture partners

Neo also has occasionally purchased and sold products from and to Ganzhou Qian Dong Rare Earth Group Co. Ltd. ("**Qian Dong**") and Toda Kogyo Corp. ("**Toda**").

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Sale of goods to Toda	$ 89	$ 1,349
Purchase of goods from Qian Dong	—	2,792

16.3 Transactions with other related parties

Neo, through one of its subsidiaries in China, Magnequench Magnetics (Chu Zhou) Co. Ltd. ("**MQCZ**"), has occasionally sold products to Atatsu Co., Ltd. ("**Atatsu**") for resale to third party customers. Atatsu is controlled by members of MQCZ's key management personnel. For the three months ended March 31, 2024, sales to Atatsu were $0.1 million. For the three months ended March 31, 2023, sales to Atatsu were nominal.

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Sale of goods and services to related parties	$ 1,331	$ 10,654
Purchase of goods and services from related parties	8,266	13,096

	March 31, 2024	December 31, 2023
Trade balances:		
from related parties	$ 343	$ 4,043
due to related parties	(3,154)	(4,336)
Total	**$ (2,811)**	**$ (293)**

Directors and Key Management Compensation

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

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

	Three Months Ended March 31,	
	2024	**2023**
Directors	$ 166	$ 167
Key Executive Management	1,220	1,096
Total	**$ 1,386**	**$ 1,263**

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

	Three Months Ended March 31,	
	2024	**2023**
Directors	$ (219)	$ (36)
Key Executive Management	310	691
Total	**$ 91**	**$ 655**

17. Recent Accounting Pronouncements

17.1 Neo adopted the following accounting standards and amendments to accounting standards during the period ended March 31, 2024:

17.1.1 Non-current Liabilities with Covenants* and *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On October 31, 2022, the IASB issued Non-current Liabilities with Covenants and Classification of Liabilities as Current or Non-current (Amendments to IAS 1) to introduce a clarification for the classification of liabilities. Under previous IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. Under the new definition, the IASB has removed the requirement for a right to be unconditional and instead now requires that a right to defer settlement must exist at the reporting date and have substance. The IASB also reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current.

The amendment was adopted by Neo on January 1, 2024.

The amendment did not have a material impact on the interim condensed consolidated financial statements.

17.1.2 Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

On September 22, 2022, the IASB issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) to help companies clarify how to measure the right-of-use asset and lease liability if variable lease payments arise in a sale-and-leaseback transaction. The key amendments confirm the following:

- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction;
- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognizes no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent remeasurement.

The amendments were adopted by Neo on January 1, 2024 and applied prospectively.

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

17.1.3 Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

On May 25, 2023, the IASB issued Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) to add disclosure requirements, and clarify existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements that would enable users to assess the effects of those arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk.

The amendments were adopted by Neo on January 1, 2024 and applied prospectively.

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

17.2 The following are new accounting pronouncements or amendments that have been issued by the IASB but have not yet been adopted by Neo as at March 31, 2024:

17.2.1 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 interim condensed consolidated financial statements.

18. Internal Control Over Financial Reporting and Disclosure Controls and Procedures

Disclosure controls and procedures

Neo's management, under the supervision of the Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**"), is responsible for establishing and maintaining disclosure controls and procedures ("**DC&P**"). 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. Management has evaluated the effectiveness of Neo's DC&P and has concluded that they were effective as at December 31, 2023.

There have been no changes in Neo's DC&P during the three months ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, Neo's financial reporting.

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. 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's management, under the supervision of the CEO and CFO, is responsible for establishing and maintaining adequate ICFR. 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.

Management assesses the 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. Management conducted an evaluation of the effectiveness of ICFR and concluded that it was effective as at December 31, 2023. There have been no changes in Neo's ICFR during the three months ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, Neo's financial reporting.

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. Management expects to complete its evaluation of both the design and operating effectiveness of ICFR of the Acquired Entity as part of 2024 evaluation cycle.

19. Business Risks and Uncertainties

Neo's risk factors are substantially unchanged from and should be read in conjunction with Neo's MD&A dated March 14, 2024 and Neo's 2023 Annual Information Form ("**AIF**").

20. Outstanding Shares Data

Class of Equity Security	**Numbers Outstanding as at March 31, 2024**
Common Shares	41,751,560
Stock Options*	2,076,960
Restricted Share Units & Performance Stock Units	598,840

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

The number of common shares outstanding as at May 9, 2024 is 41,751,560.

21. Additional Information

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