



*Performance Materials*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**NEO PERFORMANCE MATERIALS INC.**

**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED  
SEPTEMBER 30, 2022**

## Management's Discussion and Analysis

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following Management's Discussion and Analysis ("**MD&A**") for Neo Performance Materials Inc. ("**Neo**") should be read in conjunction with the MD&A and audited consolidated financial statements and related notes thereto for the year ended December 31, 2021, dated March 9, 2022, and the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2022, available on Neo's website at [www.neomaterials.com](http://www.neomaterials.com) and on SEDAR at [www.sedar.com](http://www.sedar.com). Unless otherwise stated, references in this section to "Neo", "our", "we" or "Group", refer to Neo Performance Materials Inc. and its consolidated subsidiaries.

The financial results presented in this MD&A are prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Net Income or Loss", "Adjusted Earnings per Share", "EBITDA", "Free Cash Flow", and "Free Cash Flow Conversion" are not measures recognized under IFRS and do not have any standardized meaning prescribed by IFRS. These measures may differ from those used by other companies, and are not necessarily comparable to similar measures presented by other companies. There are no directly comparable IFRS measures to any of these measures. These measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. See "*Management's Discussion and Analysis - Non-IFRS Financial Measures*" below.

This discussion contains forward-looking statements and information. The actual results, performance and achievements could differ materially from those implied by these forward-looking statements as a result of various factors, including those discussed in the MD&A dated March 9, 2022 under "*Risk Factors*". See "*Forward-Looking Information*".

The discussion and analysis in this MD&A are based upon information available to management as of November 10, 2022. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur that could affect Neo in the future.

### **1. Forward-Looking Information**

The following discussion and analysis contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to future events or future performance of Neo. All statements in this disclosure, other than statements of historical facts, with respect to Neo's objectives and goals, as well as statements with respect to its beliefs, plans, objectives, expectations, anticipations, estimates, and intentions are forward-looking information. Specific forward-looking statements in this discussion include, but are not limited to the following: expectations regarding certain of Neo's future results and information, including, among other things: revenue, expenses, revenue growth, capital expenditures, and operations; statements with respect to expected use of cash balances; continuation of prudent management of working capital; source of funds for ongoing business requirements and capital investments; expectations regarding sufficiency of the allowance for uncollectible accounts and inventory provisions; analysis regarding sensitivity of the business to changes in exchange rates; impact of recently adopted accounting pronouncements; risk factors relating to intellectual property protection and intellectual property litigation; risk factors relating to national or international economies (including the impact of COVID-19), geopolitical risk and other risks present in the jurisdictions in which Neo, its customers, its suppliers, and/or its logistics partners operate, and; expectations concerning any remediation efforts to Neo's design of its internal controls over financial reporting and disclosure controls and procedures. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or can state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. This information involves known and

unknown risks and uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Neo believes the expectations reflected in such forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this discussion and analysis should not be unduly relied upon. For more information on Neo, investors should review Neo's continuous disclosure filings that are available under its profile at [www.sedar.com](http://www.sedar.com).

The forward-looking information is only provided as of the date of this MD&A, November 10, 2022, 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 1,765 employees and has a global platform that includes 10 manufacturing facilities located in China, the United States ("U.S."), Germany, Canada, Estonia, Thailand and South Korea, 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 electric motors and pumps, sensors, air and water pollution control, and superalloys. Neo identifies growth markets driven by global macro trends such as these, and produces highly engineered industrial materials that are critical to the performance of applications in those markets.

Neo is organized along three business segments: Magnequench, Chemicals & Oxides ("C&O") and Rare Metals ("RM"), as well as the Corporate segment.

### ***Magnequench***

The Magnequench segment, with more than 30 years of manufacturing experience, is the world leader in the production of permanent magnetic powders used in bonded and hot-deformed, fully dense neodymium-iron-boron ("NdFeB" or "neo") magnets. These powders are formed through Magnequench's market-leading technology related to the development, processing, and manufacturing of neo magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench powder using a blend of various inputs. Magnequench also manufactures magnets using these bonded magnetic powders. These powders and bonded permanent magnets are used in the following: micro motors for household applications like vacuum cleaners, refrigerators, hair dryers, air conditioners and residential heating and cooling circulation pumps; industrial and other sensors; motors used in various automotive applications for hybrid, electric, and internal combustion engine vehicles; and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

### ***C&O***

The C&O segment manufactures and distributes a broad range of rare-earth-based 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 that rely upon Neo's products include automotive catalysts, permanent magnetics, consumer electronics, petroleum refining catalysts, medical devices, and wastewater treatment.

### ***Rare Metals***

The Rare Metals segment sources, reclaims, produces, refines, and markets high-value specialty metals and their compounds. These products include both high-temperature metals (tantalum, niobium, hafnium and rhenium) and electronic metals (gallium and indium). Applications from products made in this segment primarily include superalloys for jet engines, medical imaging, wireless technologies, and LED lighting. Other applications include flat panel displays, solar, steel additives, batteries, and electronics applications.

### ***Corporate***

Neo's global head office is in Toronto, Ontario, Canada, with additional corporate offices in Greenwood Village, Colorado, U.S.; Singapore; and Beijing, China. The functions of this group include finance, administration, information technology, accounting, and legal.

### 3. Selected Financial Highlights

(\$000s, except volume)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	2020	2022	2021	2020
<b>Revenue</b>						
Magnequench	\$ 67,402	\$ 60,063	\$ 31,620	\$ 219,828	\$ 192,856	\$ 100,413
C&O	52,231	45,677	36,031	189,244	152,322	94,889
Rare Metals	31,567	19,509	13,613	86,521	56,308	47,592
Corporate / Eliminations	(4,573)	(5,408)	(3,400)	(14,463)	(15,649)	(6,599)
<b>Consolidated Revenue</b>	<b>\$ 146,627</b>	<b>\$ 119,841</b>	<b>\$ 77,864</b>	<b>\$ 481,130</b>	<b>\$ 385,837</b>	<b>\$ 236,295</b>
<b>Operating Income (Loss)</b>						
Magnequench	\$ 4,897	\$ 8,130	\$ 2,965	\$ 27,995	\$ 31,805	\$ 11,925
C&O	(5,298)	7,142	3,145	21,324	27,184	(31,629)
Rare Metals	5,199	2,074	(892)	13,186	4,168	(25,797)
Corporate / Eliminations	(2,559)	(4,788)	(4,081)	(10,618)	(15,996)	(13,348)
<b>Consolidated Operating Income (Loss)</b>	<b>\$ 2,239</b>	<b>\$ 12,558</b>	<b>\$ 1,137</b>	<b>\$ 51,887</b>	<b>\$ 47,161</b>	<b>\$ (58,849)</b>
<b>Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")<sup>(1)</sup></b>						
Magnequench	\$ 7,282	\$ 10,503	\$ 5,244	\$ 35,384	\$ 38,872	\$ 18,524
C&O	(3,863)	8,059	3,896	25,710	29,712	6,847
Rare Metals	5,797	2,715	(179)	15,312	6,080	1,108
Corporate / Eliminations	(2,182)	(3,627)	(3,231)	(9,799)	(12,401)	(9,913)
<b>Consolidated Adjusted EBITDA</b>	<b>\$ 7,034</b>	<b>\$ 17,650</b>	<b>\$ 5,730</b>	<b>\$ 66,607</b>	<b>\$ 62,263</b>	<b>\$ 16,566</b>
<b>Net (Loss) Income</b>	<b>\$ (3,812)</b>	<b>\$ 8,136</b>	<b>\$ 401</b>	<b>\$ 33,580</b>	<b>\$ 28,780</b>	<b>\$ (62,445)</b>
Attributable to:						
Equity holders of Neo	(3,719)	8,036	423	33,238	28,442	(60,150)
Non-controlling interest	(93)	100	(22)	342	338	(2,295)
(Loss) earnings per share attributable to equity holders of Neo						
Basic	\$ (0.09)	\$ 0.21	\$ 0.01	\$ 0.81	\$ 0.75	\$ (1.60)
Diluted	\$ (0.09)	\$ 0.21	\$ 0.01	\$ 0.80	\$ 0.75	\$ (1.60)
<b>Adjusted Net (Loss) Income<sup>(2)</sup></b>	<b>\$ (1,910)</b>	<b>\$ 9,792</b>	<b>\$ 1,291</b>	<b>\$ 37,442</b>	<b>\$ 38,978</b>	<b>\$ (3,418)</b>
Attributable to:						
Equity holders of Neo	(1,817)	9,692	1,313	37,100	38,640	(3,390)
Non-controlling interest	(93)	100	(22)	342	338	(28)
Adjusted (loss) earnings per Share attributable to equity holders of Neo <sup>(2)</sup> :						
Basic	\$ (0.04)	\$ 0.26	\$ 0.03	\$ 0.91	\$ 1.02	\$ (0.09)
Diluted	\$ (0.04)	\$ 0.25	\$ 0.03	\$ 0.90	\$ 1.01	\$ (0.09)
Capital expenditures excluding business combination	\$ 1,734	\$ 2,374	\$ 3,407	\$ 11,098	\$ 6,631	\$ 6,436
Cash taxes paid	\$ 4,436	\$ 3,244	\$ 2,430	\$ 8,847	\$ 7,032	\$ 7,988
Dividends paid to shareholders	\$ 3,523	\$ 3,018	\$ 2,842	\$ 9,861	\$ 9,229	\$ 8,373
Repurchase of common shares under Normal Course Issuer Bid	\$ —	\$ —	\$ 797	\$ —	\$ 37	\$ 2,056
				<b>September 30,</b>		
				<b>December 31,</b>		
				<b>2022</b>		
				<b>2021</b>		
				<b>2020</b>		
Cash and cash equivalents				\$ 123,903	\$ 89,037	\$ 72,224
Bank advances & other short-term debt				\$ 15,219	\$ 6,502	\$ 2,428
Long-term debt				\$ 6,492	\$ —	\$ —

#### Notes:

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

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

## ***Highlights for the three and nine months ended September 30, 2022***

### ***Consolidated Results***

- For the three and nine months ended September 30, 2022, revenues of \$146.6 million and \$481.1 million were 22.4% and 24.7% higher, respectively, than the corresponding periods of 2021. All three segments experienced higher revenues. Selling prices for rare earth products (including Magnequench powders) rose significantly starting from the fourth quarter of 2020 and through the first quarter of 2022. By the third quarter of 2022, rare earth prices declined 30% to 40% from the peak (in the first quarter of 2022), although they remain almost 100% higher than recent historical norms. Neo benefited from rising prices from the fourth quarter of 2020 to the second quarter of 2022 and Neo has been adversely affected by the rapid decline in prices in the third quarter of 2022. The overall pricing and margin environment is higher than historical trends but quarterly results are positively (when prices are rising) or negatively (when prices are falling) affected due to the lead-lag effect of higher cost inventory on hand. In addition to lower margin on sales in the quarter, Neo recorded \$8.0 million of provisions for inventories in the third quarter, related to higher cost inventory on hand, relative to lowered selling prices. In the long term, there are higher dollar value margins available with higher prices.
- Neo reported operating income of \$2.2 million and a net loss of \$3.8 million for the three months ended September 30, 2022; and operating income of \$51.9 million and net income of \$33.6 million for the nine months ended September 30, 2022. Operating income for the three and nine months ended September 30, 2022 was higher in Rare Metals segment but lower in C&O and Magnequench segments.
- Operationally, Neo reported significant increases in revenue and earnings year-over-year. Magnequench saw weaker volume across the majority of its applications due primarily to customer slowdowns in Asia related to COVID-19 and the slowdown in automotive due to the semiconductor chip shortage. C&O saw mixed volumes for rare earth elements but slower volumes in the environmental catalyst end markets driven by semiconductor chip shortages. Rare Metals saw record earnings driven by higher selling prices and the continued recovery in aerospace markets and demand from new customers in other end markets, tempered by the elimination of sales to Russian customers.
- Adjusted EBITDA<sup>(1)</sup> for the three months ended September 30, 2022 was \$7.0 million, a decrease of \$10.6 million or 60.1% compared to the same period of the prior year. For the nine months ended September 30, 2022, Adjusted EBITDA<sup>(1)</sup> was \$66.6 million, an increase of \$4.3 million or 7.0% compared to the corresponding period in 2021.
- 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 electric motors across multiple sectors, which encourages higher utilization of Neo's magnetic materials; growth in hybrid and electric vehicles; more stringent government regulation with respect to air and water emissions; and trends toward greater utilization of lighter-weight materials in industries such as aerospace and consumer electronics. Neo's advanced industrial materials are integral to technologies in all these end markets.

### ***Magnequench Segment***

- Operating income for the three and nine months ended September 30, 2022 was \$4.9 million and \$28.0 million, respectively, a decrease of \$3.2 million or 39.8% and \$3.8 million or 12.0%, respectively, when compared to the three and nine months ended September 30, 2021. For the three months ended September 30, 2022, Adjusted EBITDA<sup>(1)</sup> in the Magnequench segment was \$7.3 million, compared to \$10.5 million for the three months ended September 30, 2021; a decrease of \$3.2 million or 30.7%. For the nine months ended September 30, 2022, Adjusted EBITDA<sup>(1)</sup> was \$35.4 million, compared to \$38.9 million in the same period of 2021; a decrease of \$3.5 million or 9.0%.
- For the three and nine months ended September 30, 2022, the Magnequench segment saw a decline in volumes compared to the corresponding periods of 2021. Volumes in 2022 were particularly impacted by three factors. First, the recent spike in COVID-19 has affected the free flow of people and production supplies across many

parts of Asia. Second, the occurrence of several natural disasters impacted production facilities and customers in Asia. Third, the on-going semiconductor chip shortage is continuing to impact customers in the automotive and other industries. Although Magnequench's products are distributed on a global basis, many of its next tier customers are located in Asia and were impacted by the above factors in 2022. In addition, Magnequench is seeing customers change their ordering cycles and behaviours in response to customers' managing their inventory levels in anticipation of potential economic uncertainty.

- Margins per ton in the Magnequench segment remained strong in the three months ended September 30, 2022, despite being lower than the margins reported in the first six months of 2022. As rare earth magnetic prices have declined from March 2022, Magnequench is beginning to see the reversal of the lead-lag benefit in the three months ended September 30, 2022 and expects this decline in margins per ton to continue into the fourth quarter of 2022. Magnequench has pass-through pricing agreements for rare earth magnetic elements on the vast majority of its sales contracts. Magnequench earns a targeted margin spread per ton when rare earth prices are stable and over the long term. However, the short-term timing mechanics of the pass-through agreements generally lead to increasing margins when rare earth prices rise and declining margins when rare earth prices fall, related primarily to inventory on hand purchased at previous costs. Pass-through is a key strategic focus of Magnequench and ensures that the business can continue to generate long term sustainable and value-added margins.
- Over the last few years, Magnequench has focused on key macro growth trends that are yielding positive sales volume growth in areas such as compression magnets and electrified-automotive applications, including traction motors and pumps.

#### ***Chemicals & Oxides ("C&O") Segment***

- For the three and nine months ended September 30, 2022, revenues in the C&O segment were \$52.2 million and \$189.2 million, respectively, compared to \$45.7 million and \$152.3 million in the same periods of 2021; an increase of \$6.6 million or 14.3% and \$36.9 million or 24.2%, respectively. For the three and nine months ended September 30, 2022, the C&O segment reported operating loss of \$5.3 million and operating income of \$21.3 million, respectively, compared to operating income of \$7.1 million and \$27.2 million in the same periods of 2021. Adjusted EBITDA<sup>(1)</sup> was \$3.9 million loss for the three months ended September 30, 2022; a decrease of 147.9% compared to the same period in 2021.
- In the three months ended September 30, 2022, the C&O segment was adversely impacted by the continuing decline of rare earth prices. Rare earth prices (particularly for magnetic rare earth elements) increased substantially from the third quarter of 2020 to the first quarter of 2022 but have since declined between 30% and 40% since March 2022. This rapid decline in rare earth prices has had a negative impact on C&O rare earth separation margins as C&O processed and sold rare earths purchased three to four months earlier (at higher costs). Despite the recent decline, rare earth prices remain more than 100% higher than prices from the recent past (the two to three years prior to the third quarter of 2020). Accordingly, the outlook (both in demand and pricing) remains strong for rare earths which is expected to lead to higher dollar value margins for C&O in the long term. However, the current period was adversely impacted by the immediate and rapid decline of prices while processing higher cost inventory (lead-lag impact). The rapid decline in prices also necessitated C&O to record a \$6.0 million of provisions for inventories in the three months ended September 30, 2022 and this will likely impact margins in the fourth quarter of 2022 (assuming prices hold constant).
- In C&O's environmental catalysts business, volumes were reasonably strong in the first nine months of 2022, although they were lower than the comparable periods in the prior year, which benefited from customers refilling their supply chains. Volumes have seen less of an impact from the semiconductor chip shortage and are distributed more globally than Magnequench volumes and thus, have not demonstrated the same negative pressures on volume trends as some Magnequench products. C&O's environmentally protective water treatment solutions business continues to perform well with higher volume and new customer adoption, despite challenges in global shipping and logistics availability.

### ***Rare Metals Segment***

- For the three and nine months ended September 30, 2022, the Rare Metals segment reported operating income of \$5.2 million and \$13.2 million, respectively, compared to \$2.1 million and \$4.2 million in the same periods of 2021; an increase of \$3.1 million or 150.7% and \$9.0 million or 216%, respectively. For the three months ended September 30, 2022, Adjusted EBITDA<sup>(1)</sup> in the Rare Metals segment was \$5.8 million, compared to \$2.7 million in the same period of 2021; an increase of \$3.1 million or 114%.
- Rare Metals achieved record earnings in the first nine months of 2022, continuing the improvement that started in the fourth quarter of 2021. Rare Metals experienced strength in pricing for key products such as hafnium and tantalum while also benefiting from lower-cost inventory on hand. Hafnium prices, in particular, have increased rapidly starting in the fourth quarter of 2021 and the segment benefited by having lower-cost inventory on hand. In addition, the recycling purchases and activities of Rare Metals was particularly impactful to lowering its overall material costs as some of the material purchased in the quarter was not rising as fast as selling prices. Accordingly, the higher selling prices are leading to both lead-lag benefits as well as fundamental improvements in the margin spread between current raw material purchase costs and finished goods selling prices. However, this was partially offset by Rare Metals not selling some of its niobium oxide products to customers resident in or with connections to Russia, resulting in lower margins and higher inventory on hand at period-end for its niobium oxide products.
- The improvement in the Rare Metals business in the three and nine months ended September 30, 2022 was also attributable to progress made in several key strategic initiatives in the segment, including selling more products outside of the aerospace industry, expanding its customer base, and diversifying its total end-market exposure. Key progress continues to be made in expanding the capacity of key products, with minimal capital investment, and refocusing the sales pipeline and manufacturing capacity toward more profitable end products that are higher purity and can meet demanding specifications. Sales prices in a number of end markets have recovered and gallium-based products are exhibiting improved market demand.

### ***Cash and Other Highlights for the nine months ended September 30, 2022***

- Neo continues to be in a strong financial position. As at September 30, 2022, Neo had \$123.9 million in cash, \$1.2 million in restricted cash, and \$15.2 million in short-term debt. In addition, Neo borrowed \$6.5 million from its Estonia term debt facility, resulting in net cash of \$103.4 million. Neo is in compliance with all covenants in the facility agreements as at September 30, 2022. Cash generation has been negatively impacted in the nine months ended September 30, 2022 as increases in rare earth prices translated into higher-cost rare earth feedstock in inventory and higher accounts receivable tied to increased sales values. Working capital increased by \$64.6 million compared to December 31, 2021.
- To supplement Neo's existing cash position, support working capital levels, and plan for future growth, Neo completed a bought deal treasury offering on September 16, 2022, for net proceeds of approximately \$47.7 million.
- To finance the relocation, expansion, and sustainability upgrades to one of Neo's environmental emissions catalyst manufacturing facilities, Neo entered into a loan agreement with Export Development Canada (“EDC”) on August 16, 2022, for a term loan of up to \$75.0 million, to be advanced in three tranches of \$25.0 million.
- Neo invested \$11.1 million in capital expenditures and paid \$8.8 million in cash taxes in the nine months ended September 30, 2022.
- For the nine months ended September 30, 2022, Neo paid dividends to its shareholders of \$9.9 million.

## **4. Non-Operating Geopolitical and Other Global Impacts**

### ***Impact of COVID-19 Pandemic***

The impacts of COVID-19 on economic activity and on Neo's results were most pronounced in the second and third quarters of 2020. Neo operates in numerous regions of the world, through complex global supply chains which were each impacted differently and on varying timelines. Throughout 2020, Neo's sales were negatively impacted by customers shutting down operations, cancelling orders, delaying orders and other changes due to customer's managing inventory levels. Neo's internal operations were also affected with shutdowns or slowdowns in production at Neo's manufacturing plants in China, Estonia, the United States and Canada, each to varying degrees or for varying timeframes. Although it is not practical to specifically quantify, Neo believes that the COVID-19 pandemic was the largest contributing factor to the decline in sales and performance in 2020.

In response to the COVID-19 pandemic and in addition to the existing robust health and safety policies already instituted at Neo, Neo established additional protocols and provided employees training on Neo's COVID-19 policies and procedures. Neo implemented temperature screen and health checks upon entry to all facilities and redesigned workspaces and workflows to enable better physical distancing, where possible and appropriate. In addition, numerous other activities, such as travel, were curtailed to support lowering the risk of transmission and certain other activities were curtailed to control cost and working capital in light of lower demand.

Although much of the global economic system has been returning to normalized levels in the periods since 2020, there continues to be challenges and hurdles impacting various regions and over different time frames. These challenges include recent spikes of COVID-19 in early 2022 (particularly impacting flow of people and production in Asia), the "zero-COVID policy" in China, continued availability challenges and cost increases in global shipping, and the decreased availability of semiconductors used by the automotive and other industries.

As at September 30, 2022, Neo does not believe COVID-19 has a continuing impact on liquidity. Neo has cash and restricted cash balances of \$125.1 million. Neo has not experienced a significant decline in the collectability of its accounts receivable although it continues to monitor potential bad debts and maintains an expected credit loss amount in accordance with IFRS 9. As at September 30, 2022, Neo had outstanding bank loans of \$6.5 million and had approximately \$15.2 million in bank advances and other short-term loans. Neo also had a global consolidated debt agreement with EDC, for which no amounts are currently drawn. These loan agreements contain restrictive covenants that Neo has to be in compliance with. As at September 30, 2022, Neo is in compliance with all required covenants. Neo completed a bought deal treasury offering in the third quarter of 2022 with Neo obtaining net proceeds of approximately \$47.7 million. Neo continues to make appropriate capital investments to support its existing business and for future growth with \$11.1 million in capital expenditures during the nine months ended September 30, 2022.

Neo continues to assess the global situation related to COVID-19 and its impact on its workforce, sales forecasts and operating conditions going forward, including certain remote working conditions. Given the emergence of new COVID-19 variants and the introduction of numerous vaccines, it remains uncertain how COVID-19 will impact global economic activities and Neo's future results.

Neo may, in the future, seek to raise additional capital or debt and this activity may be affected by the impacts of COVID-19, but it is not possible to determine the potential impact at this time.

### ***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"), North Atlantic Treaty Organization ("NATO"), United Kingdom ("UK"), the U.S., and other countries. Several countries have recently imposed a series of new sanctions targeting Russia, two separatist pro-Russian regions in Ukraine and certain individuals, banks and corporations that are seen as allies to the administration in Russia. Through to September 30, 2022, however, there has been no significant impact on Neo's operations.

Neo's Silmet facility sources the majority of its rare earth feedstock from a Russian supplier. Buss & Buss sources a small amount of its tantalum scrap from a recycled source in the Baltic States which may receive some stock from Russia. Neo has eliminated sales going to Russian and certain other customers where Neo believes other customers have connections to Russia. With the assistance of an advisory firm, Neo continues to monitor the impact of these sanctions on its business. Neo currently expects, but cannot be certain, that these sanctions will not materially affect its access to the inputs it needs to operate.

The removal of Russian banks from the Swift messaging system has made it more difficult for Neo to pay its Russian supplier of rare earth materials (who is not currently restricted by sanctions) and Neo continues to work with global banks to facilitate these allowable payments. Neo cannot be assured that viable payment pathways will exist in the future, as financial institutions limit their business with Russian clients out of caution.

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

Counter-measures taken by Russia, and any further sanctions imposed by various countries and governments, could have negative impacts on regional and global financial markets and economic conditions. The situation is changing rapidly and Neo cannot be certain on the extent of the conflict and the related government actions will impact Neo's material sourcing or global markets in the future.

## **5. Update on Selected Strategic Initiatives**

### ***NAMCO Relocation***

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

The engineering and construction for the new plant is largely on schedule and on budget, with a target for completion in the second half of 2023. As of September 30, 2022, Neo had spent approximately \$7.0 million (RMB 47 million) on the relocation efforts, including approximately \$4.4 million to secure a 50 year land lease at the new site. To assist with the funding, in August 2022, Neo entered into a \$75.0 million credit facility with EDC which envisions three tranches of \$25.0 million to fund anticipated relocation costs. As of September 30, 2022, no amounts had been drawn against this facility. Responding to customers' requests, Neo is building an inventory bank to maintain continuity of supply of its environmental catalyst products during the transition and re-qualification period.

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

### ***Sintered Magnets in Europe***

With a portion of the proceeds of the bought deal treasury offering which was completed on September 16, 2022, Neo intends to invest in a new venture to manufacture and distribute sintered rare earth magnets in Europe. These magnets are critical to many future facing applications such as traction motors for electric vehicles. Magnet

production and rare earth supply chain security are considered critical elements to all OEM's strategies on electric vehicles.

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

On November 9, 2022, Neo announced it has been awarded a grant of up to \$18.3 million (€18.7 million) from the Government of Estonia under Europe's Just Transition Fund ("**JTF**") for eligible project costs of up to \$95.7 million (€98 million). The terms of the award are governed under the Government of Estonia's regulations on general conditions for granting and using funds from the operational program of the EU cohesion and internal security policy funds for the period 2021-2027 and related regulations, and includes factors such as total eligible costs incurred, and employment created. The grant to Neo is the first such award to any critical materials company in the EU under the JTF program.

At this time, Neo has spent approximately \$1.0 million in out of pocket costs on this endeavour and has allocated significant internal resources for its preparation and execution.

### ***Initiatives to Diversify Rare Earth Supply***

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

On August 22, 2022, Neo announced it had entered into a License Purchase Agreement with Hudson Resources Inc. to acquire a license to explore rare earths in the Sarfartoq Carbonatite Complex in southwest Greenland. Neo intends to assign this license to and invest in, along with other investors, a special purpose entity with plans to explore and develop the Sarfartoq project. As part of this equity contribution arrangement, Neo intends to enter into an off-take agreement for the majority of the rare earth material ultimately produced in order to supply rare earth feedstock to Neo's value-add processing facilities. As of September 30, 2022, Neo is in the process of obtaining government approval to transfer the Exploration License from Hudson Resources to the special purpose entity. A \$0.3 million non-refundable deposit has been spent to date.

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

## 6. Consolidated Results of Operations

*Comparison of the three and nine months ended September 30, 2022 to the three and nine months ended September 30, 2021*

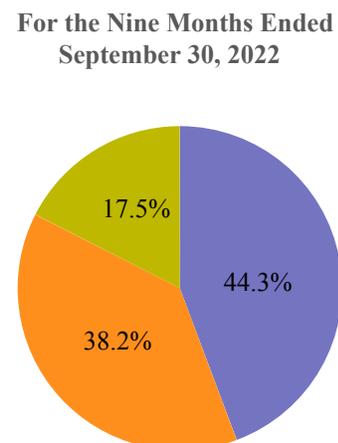
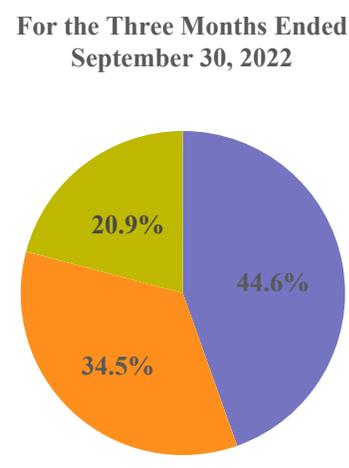
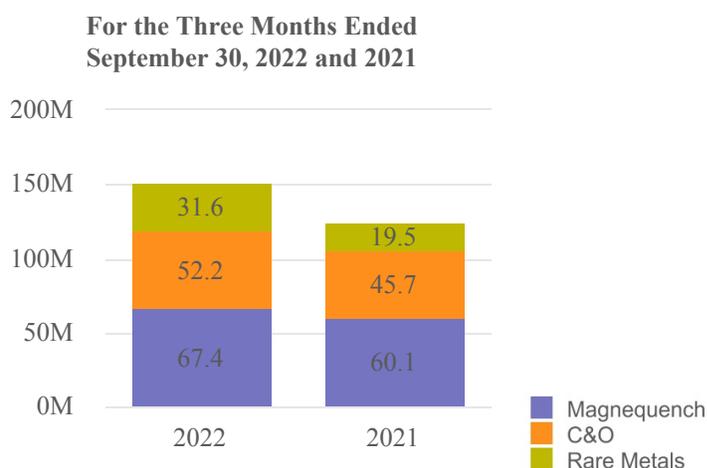
(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Revenue</b> .....	146,627	119,841	481,130	385,837
<b>Costs of sales</b>				
Costs excluding depreciation and amortization .....	120,137	83,330	356,249	268,830
Depreciation and amortization .....	2,279	1,980	7,045	5,771
<b>Gross profit</b> .....	<b>24,211</b>	<b>34,531</b>	<b>117,836</b>	<b>111,236</b>
<b>Expenses</b>				
Selling, general and administrative .....	13,781	13,347	42,296	41,024
Share-based compensation .....	735	1,198	1,873	2,761
Depreciation and amortization .....	1,781	1,908	5,529	5,798
Research and development .....	5,675	5,520	15,956	14,492
Impairment of assets .....	—	—	295	—
	21,972	21,973	65,949	64,075
<b>Operating income</b> .....	<b>2,239</b>	<b>12,558</b>	<b>51,887</b>	<b>47,161</b>
Other expense .....	(448)	(1,284)	(1,736)	(7,145)
Finance (cost) income, net .....	(1,437)	999	(4,143)	(674)
Foreign exchange loss .....	(723)	(755)	(175)	(1,844)
<b>(Loss) income from operations before income taxes and equity income of associates</b> .....	<b>(369)</b>	<b>11,518</b>	<b>45,833</b>	<b>37,498</b>
Income tax expense .....	(3,775)	(3,670)	(15,771)	(10,282)
<b>(Loss) income from operations before equity income of associates</b> .....	<b>(4,144)</b>	<b>7,848</b>	<b>30,062</b>	<b>27,216</b>
Equity income of associates (net of income tax) .....	332	288	3,518	1,564
<b>Net (loss) income</b> .....	<b>\$ (3,812)</b>	<b>\$ 8,136</b>	<b>\$ 33,580</b>	<b>\$ 28,780</b>
<b>Attributable to:</b>				
Equity holders of Neo .....	(3,719)	\$ 8,036	33,238	\$ 28,442
Non-controlling interest .....	(93)	100	342	338
	<b>\$ (3,812)</b>	<b>\$ 8,136</b>	<b>\$ 33,580</b>	<b>\$ 28,780</b>
<b>(Loss) Earnings per share attributable to equity holders of Neo:</b>				
Basic .....	\$ (0.09)	\$ 0.21	\$ 0.81	\$ 0.75
Diluted .....	\$ (0.09)	\$ 0.21	\$ 0.80	\$ 0.75

## Revenue

Neo's consolidated revenue for the three and nine months ended September 30, 2022, was \$146.6 million and \$481.1 million, respectively, compared to \$119.8 million and \$385.8 million for the three and nine months ended September 30, 2021, respectively, an increase of \$26.8 million or 22.4% and \$95.3 million or 24.7%, respectively.

(\$000s)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	%	2022	2021	Change	%
Magnequench	\$ 67,402	\$ 60,063	\$ 7,339	12.2%	\$ 219,828	\$ 192,856	\$ 26,972	14.0%
C&O	52,231	45,677	6,554	14.3%	189,244	152,322	36,922	24.2%
Rare Metals	31,567	19,509	12,058	61.8%	86,521	56,308	30,213	53.7%
Eliminations	(4,573)	(5,408)	835	(15.4%)	(14,463)	(15,649)	1,186	(7.6%)
<b>Consolidated Revenue</b>	<b>\$ 146,627</b>	<b>\$ 119,841</b>	<b>\$ 26,786</b>	<b>22.4%</b>	<b>\$ 481,130</b>	<b>\$ 385,837</b>	<b>\$ 95,293</b>	<b>24.7%</b>

Revenue by segment before inter-segment eliminations <sup>(1)</sup>



### Notes:

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

Inter-segment revenue for the three and nine months ended September 30, 2022 was \$4.6 million and \$14.5 million, respectively, compared to \$5.4 million and \$15.6 million for the three and nine months ended September 30, 2021, respectively. These have been eliminated on consolidation from C&O segment revenue as C&O sold product to Magnequench in the respective periods. The products sold to Magnequench are potential marketable third-party sales and are generally sold at fair market value.

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

### ***Costs of sales***

Consolidated costs of sales, excluding depreciation and amortization, for the three months ended September 30, 2022 was \$120.1 million or 81.9% of revenue, compared to \$83.3 million or 69.5% of revenue for the three months ended September 30, 2021. For the nine months ended September 30, 2022, consolidated costs of sales, excluding depreciation and amortization, was \$356.2 million or 74.0% of revenue, compared to \$268.8 million or 69.7% of revenue in the same period of the prior year. In the three months ended September 30, 2022, costs of sales, excluding depreciation and amortization, as a percentage of revenue increased mainly due to decreased rare earth commodity prices, higher cost inventory on hand relative to current selling price (including an \$8.0 million provision for inventories), and product mix within the business segments.

Consolidated depreciation and amortization in costs of sales were \$2.3 million and \$7.0 million for the three and nine months ended September 30, 2022, respectively, compared to \$2.0 million and \$5.8 million for the three and nine months ended September 30, 2021, respectively. Consolidated depreciation and amortization in costs of sales for the three and nine months ended September 30, 2022 increased due to the accelerated amortization of the property, plant and equipment in one of Neo's facilities in China.

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

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

Neo's SG&A expense consists primarily of personnel and related costs, including freight, legal, accounting and other professional fees, and information technology costs. For the three and nine months ended September 30, 2022, SG&A expense was \$13.8 million and \$42.3 million, respectively, comparable to \$13.3 million and \$41.0 million in the corresponding periods last year.

### ***Share-based compensation***

For the three and nine months ended September 30, 2022, share-based compensation was \$0.7 million and \$1.9 million, respectively, compared to \$1.2 million and \$2.8 million for the three and nine months ended September 30, 2021. The lower expense in 2022 is mainly due to the lower share price for Neo's common shares, thus, decreasing the fair value of the cash-settled awards. This decrease was partially offset by increased service period expense for awards granted in March 2022 and September 2021.

### ***Depreciation and amortization***

Depreciation and amortization unrelated to production for the three and nine months ended September 30, 2022 was \$1.8 million and \$5.5 million, respectively, comparable to \$1.9 million and \$5.8 million for the three and nine months ended September 30, 2021.

## ***R&D***

For the three and nine months ended September 30, 2022, R&D expense was \$5.7 million and \$16.0 million, respectively, compared to \$5.5 million and \$14.5 million in the corresponding periods in 2021. Neo continues to prioritize making strategic and appropriate investments in R&D to develop new applications for its products and to strategically position itself to meet customers' needs for technical solutions. Certain R&D costs are project-based and may be higher or lower in any given period.

## ***Other expense***

Neo reported other expense of \$0.4 million and \$1.7 million for the three and nine months ended September 30, 2022, respectively, compared to \$1.3 million and \$7.1 million for the three and nine months ended September 30, 2021, respectively. For the nine months ended September 30, 2021, Neo recorded other expense for estimated damage claims related to legal proceedings and costs for the disposal of historically generated naturally occurring radioactive materials ("**NORM**"), partially offset by other income from the disposal of Neo's entire holdings of Shanxi Jiahua Galaxy Electronic Materials Co., Ltd. and insurance proceeds received related to damage incurred at the Blanding facility (now sold).

## ***Finance (cost) income, net***

Finance cost, net, for the three and nine months ended September 30, 2022 was \$1.4 million and \$4.1 million, respectively, compared to finance income of \$1.0 million and finance cost of \$0.7 million in the corresponding periods last year.

Neo's finance (cost) income, net, in both years were primarily related to the change in fair value of equity securities and derivative liability of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss. The equity securities and derivative liability are re-measured at each reporting period with the change in fair value recorded to finance (cost) income, net.

As at September 30, 2022, Neo had outstanding bank loans of \$6.5 million which bears interest at a rate equal to Euribor plus 1.95% per annum. Neo also had approximately \$15.2 million in bank advances and other short-term loans with short-term maturities at September 30, 2022. As a whole, Neo's interest expense and exposure to interest rate risk is minimal.

## ***Income tax expense***

For the three and nine months ended September 30, 2022, Neo had an income tax expense of \$3.8 million and \$15.8 million, respectively, on loss from operations before taxes of \$0.4 million and income from operations before taxes of \$45.8 million. For the three and nine months ended September 30, 2021, Neo had an income tax expense of \$3.7 million and \$10.3 million, respectively, on income from operations before taxes of \$11.5 million and \$37.5 million.

Neo's effective income tax rates were (1,023.0)% and 34.4% for the three and nine months ended September 30, 2022, respectively, and 31.9% and 27.4% for the three and nine months ended September 30, 2021, respectively.

The negative effective income tax rate for the three months ended September 30, 2022 is due to the smaller amount of operating income and resulting pre-tax loss during the quarter. Significant reconciling items increasing the tax expense for the quarter include unrecognized deferred tax assets, foreign exchange translation of non-monetary assets and expenses not deductible for tax purposes.

## ***Other Expenditures and Legal Contingencies***

### ***Capital Expenditures***

Neo capitalized expenditures of \$11.1 million for the nine months ended September 30, 2022, compared to \$6.6 million for the nine months ended September 30, 2021. These capital projects included a combination of maintenance capital to assist with the continuing development and operations of Neo, growth capital to assist in adding new capacity or new products, and strategic capital tied to longer-term strategic planning initiatives.

Neo has made initial investments, including acquiring the rights to the new land location and paid engineering design costs to evaluate the planned upgrade, expansion, and relocation of Neo's environmental catalyst production facilities. In March 2022, Neo's facility in China, NAMCO, received the land certificate from the Chinese government which gives permission to NAMCO to begin using the land as stated in the 50-year lease agreement with a cost of \$4.4 million. Neo continues to work on the engineering design associated with this relocation and began construction in 2022.

### ***Legal contingencies***

Neo operates in a high technology and advanced engineering product environment in which many patents have been issued over time. The subsidiaries of Neo are currently, and may in the future become, involved in legal proceedings alleging patent infringement. At present, Neo is defending against patent infringement legal proceedings filed in Germany, the United Kingdom, the People's Republic of China, and Estonia. Additionally, Neo has initiated proceedings to invalidate certain patents of Neo's competitors issued in these same jurisdictions.

There are many factors that make it difficult to estimate the impact of a particular lawsuit on Neo, including the following, among others: being in the early stage of a proceeding when the claimant is not required to specifically identify the manner in which the patent has allegedly been infringed; damages sought that are unspecified, unsupported, unexplained or uncertain; discovery not having been started or still incomplete; the complexity of the facts that are in dispute (e.g., the analysis of the patent and a comparison to the activities of Neo is a labor-intensive and highly technical process); the difficulty of assessing novel claims or legal arguments, and; the parties not having engaged in any meaningful settlement discussions. Management is required to apply judgment with respect to estimating the potential impact of the ongoing patent litigation on Neo. Potential impacts to Neo include, but are not limited to the following: the possibility of an injunction prohibiting Neo from manufacturing, distributing, marketing or selling products that are found to infringe on an unexpired patent; potential damages, attorney's fees and costs that Neo could be ordered to pay if it is found to have infringed on a patent, and; damage to Neo's reputation with key customers, or prospective customers, from a finding of patent infringement.

Of the various lawsuits initiated and underway, the German Courts have ruled that certain of Neo Chemicals & Oxides (Europe) Ltd.'s ("**Neo C&O (Europe)**") products infringed four expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1 ("**846**"), European patent #0605274 ("**274**"), and European patent #0955267 B1 ("**267**"). Neo C&O (Europe) filed an appeal in the 846 infringement action, which is still pending. The judgments of infringement with respect to 984, 274 and 267, are final. Neo C&O (Europe) was ordered to provide information related to the calculation of damages, but as 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 and 267 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 and 267 were upheld subject to restrictions in scope. Neo C&O (Europe) also filed actions in the German Federal Patent Court challenging the validity of European patent #1527018 ("**018**") and European patent #2007682 ("**682**"). The German Federal Patent Court upheld the validity of 018 in restricted form. Both Rhodia and Neo have appealed this ruling and the appeals are still pending. On March 22, 2022, Neo C&O (Europe)'s lawsuit in the German Federal Patent Court challenging the validity of 682 was dismissed on the ground that it was filed prematurely. Neo C&O (Europe) has appealed the dismissal of its lawsuit to invalidate 682.

Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed four unexpired patents: 018, 682, European Patent #1435338 B1 ("**338**") and European patent #2523907 ("**907**"). In September 2020, Neo C&O (Europe) was found to infringe 018 in Germany by the Düsseldorf Regional Court. Neo and Rhodia have both appealed this ruling, and the appeals are still pending. The Düsseldorf Regional Court stayed Rhodia's case alleging infringement of 682, pending the outcome of Neo's action before the German Federal Patent Court to invalidate 682. In September of 2021 the Court of Appeal remanded the case back to the Düsseldorf Regional Court to reconsider its order staying the 682 infringement proceeding. The Düsseldorf Regional Court has not yet ruled on Neo's motion for stay following the remand. The 907 action was initiated at the beginning of July 2020, but Rhodia dismissed the 907 action in March 2021.

In December 2017, the Regional Court of Mannheim (Germany) determined that certain of Neo C&O (Europe)'s products infringed patent 338, and an injunction prohibiting the sale of affected products into Germany was granted. Neo C&O (Europe) appealed the decision on infringement. In January 2019, the Federal Patent Court in Munich revoked the German designation of patent 338. Rhodia appealed this ruling, and on April 6, 2021, the German Federal Supreme Court reversed the judgment of the Federal Patent Court and upheld the validity of patent 338, subject to certain limitations in its scope. In December of 2021, the Higher Regional Court of Karlsruhe dismissed Neo's appeal in the infringement case and affirmed the Regional Court of Mannheim's ruling that Neo had infringed patent 338 in Germany. Neo has filed for leave to appeal this judgment to the German Federal Supreme Court.

In April 2018, the UK High Court of Justice determined that certain of Neo C&O (Europe)'s products infringed the equivalent UK patent 338. Neo C&O (Europe) appealed the trial court judgment of infringement but in October of 2019 the judgment of infringement was affirmed. In 2020 Neo C&O (Europe) reached a confidential settlement with the plaintiffs, Rhodia Operations S.A.S. and Anan Kasai Co. Ltd., for some of the damage claims. A trial on the plaintiffs' remaining claims for damages took place in January and February 2022. On March 29, 2022, the Court ruled that the plaintiffs were not entitled to any damages for the remaining claims. The plaintiffs have been granted the right to appeal the trial court's judgment, and the appeal is pending.

On April 18, 2018, the Patent Reexamination Board of the State Intellectual Property Office of China ("**PRB**") ruled in favor of ZAMR, a Chinese subsidiary of Neo, by invalidating all claims associated with Chinese patent ZL 03817110.4, held by Rhodia Operations S.A.S., an affiliate of Brussels-based Solvay ("**Rhodia Operations**"). On May 23, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by Rhodia Operations alleging infringement of Chinese patent ZL 03817110.4. Rhodia Operations has appealed the decisions of the PRB and the Intermediate People's Court of Zibo concerning Patent ZL 03817110.4. In December 2020, the Beijing IP Court upheld the ruling of the PRB invalidating all claims associated with patent ZL 03817110.4. Rhodia Operations appealed the decision of the Beijing IP Court. On April 1, 2022, the Supreme People's Court upheld the ruling of the Beijing IP Court and the judgment invalidating patent ZL 03817110.4 is now final.

On September 26, 2018, the PRB again ruled in favor of ZAMR by invalidating all product claims associated with patent ZL 200710146613.6, held by Daiichi Kigenso Kagaku Kogyo Co. ("**DKKK**"). The PRB upheld the validity of Claim 4, which is a method claim. In May of 2021, DKKK and Rhodia Operations withdrew their suit alleging infringement of Claim 4. In December 2020, the Beijing IP Court upheld the ruling of the PRB invalidating claims 1 through 3 of patent ZL 200710146613.6. In September 2022, the Supreme People's Court upheld the ruling of the PRB.

In January 2019, the PRB ruled in favor of ZAMR by invalidating all patent claims associated with patent ZL 97195463.1. On February 28, 2019, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by Rhodia Operations and DKKK alleging infringement of patent ZL 97195463.1. Rhodia Operations and DKKK have appealed these decisions. In April 2020, the Beijing IP Court upheld the PRB's ruling that invalidated all patent claims. Rhodia Operations appealed this judgment to the Supreme People's Court of China and in November 2020, the Supreme People's Court of China affirmed the judgment of the Beijing IP Court, invalidating all claims associated with patent ZL 97195463.1. This final judgment precludes further litigation for alleged infringement of ZL 97195463.1.

On March 4, 2019, the PRB ruled in favor of ZAMR by invalidating all patent claims associated with patent ZL 02822106.0, which is equivalent to European Patent 338. Solvay Japan appealed this decision. In July 2021, the Beijing IP Court dismissed Solvay Japan's appeal and upheld the PRB's ruling that invalidated all patent claims associated with patent ZL 02822106.0. In January of 2022, Solvay Japan withdrew its appeal to the Supreme People's Court of China and the judgment of the Beijing IP Court invalidating all patent claims became final. In October 2020, Rhodia Operations refiled a lawsuit, in the Ji'nan Intermediate Court, alleging ZAMR had infringed Chinese patent ZL 96196505.3. In 2015 Rhodia Operations had filed a similar lawsuit against ZAMR alleging infringement of the same patent before the Zibo Intermediate People's Court, but in December 2019 Rhodia Operations withdrew that lawsuit during the middle of trial. In August of 2021, the Ji'nan Intermediate Court ruled that ZAMR did not infringe ZL 96196505.3. Rhodia Operations has appealed the judgment of non-infringement, and the appeal is still pending.

In November of 2020 Rhodia Operations filed a lawsuit in Estonia against NPM Silmet OÜ alleging infringement of European Patent EP 3009403. This case has not yet been set for trial.

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.

<u>Patent Reference</u>	<u>Jurisdiction of Claim</u>	<u>Specified Damages by Claimant</u>
European patent 0863846 B1	Germany	} \$8.7 million
European patent 0735984 B1	Germany	
European patent 0605274 B1	Germany	
Chinese patent ZL 96196505.3	China	\$6.4 million
European Patent EP 3009403	Estonia	\$0.1 million
European & UK patents 1435338 B1	Germany	\$37.1 million (€38.0 million)
European & UK patents 1435338 B1	UK	Not specified
European patent 0955267	Germany	\$0.3 million (€0.3 million)
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified

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

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

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

## 7. Non-IFRS Financial Measures

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

### Non-IFRS financial measures

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

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

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

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

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

### Non-IFRS ratios

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

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

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

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

(\$000s, except volume)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	%	2022	2021	Change	%
<b>Net (loss) income</b> . . .	<b>\$ (3,812)</b>	<b>\$ 8,136</b>	<b>\$(11,948)</b>	(146.9%)	<b>\$33,580</b>	<b>\$28,780</b>	<b>\$ 4,800</b>	16.7%
Add back (deduct):								
Finance cost (income), net . . . . .	1,437	(999)	2,436		4,143	674	3,469	
Income tax expense	3,775	3,670	105		15,771	10,282	5,489	
Depreciation and amortization included in costs of sales . . . . .	2,279	1,980	299		7,045	5,771	1,274	
Depreciation and amortization included in operating expenses	1,781	1,908	(127)		5,529	5,798	(269)	
<b>EBITDA</b> . . . . .	<b>5,460</b>	<b>14,695</b>	<b>(9,235)</b>	(62.8%)	<b>66,068</b>	<b>51,305</b>	<b>14,763</b>	28.8%
<b>Adjustments to EBITDA:</b>								
Other expense <sup>(1)</sup> . . . . .	448	1,284	(836)		1,736	7,145	(5,409)	
Foreign exchange loss <sup>(2)</sup> . . . . .	723	755	(32)		175	1,844	(1,669)	
Equity income of associates . . . . .	(332)	(288)	(44)		(3,518)	(1,564)	(1,954)	
Share-based compensation <sup>(3)</sup> . . . . .	735	1,198	(463)		1,873	2,761	(888)	
Impairment of assets . . . . .	—	—	—		295	—	295	
Other costs (recoveries) <sup>(4)</sup> . . . . .	—	6	(6)		(22)	772	(794)	
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$ 7,034</b>	<b>\$17,650</b>	<b>\$(10,616)</b>	(60.1%)	<b>\$66,607</b>	<b>\$62,263</b>	<b>\$ 4,344</b>	7.0%
<i>Adjusted EBITDA Margins<sup>(1)</sup></i> . . . . .	<i>4.8%</i>	<i>14.7%</i>			<i>13.8%</i>	<i>16.1%</i>		
Less:								
Capital expenditures . . .	\$ 1,734	\$ 2,374	\$ (640)	(27.0%)	\$11,098	\$ 6,631	\$ 4,467	67.4%
<b>Free Cash Flow</b> . . . . .	<b>\$ 5,300</b>	<b>\$15,276</b>	<b>\$ (9,976)</b>	(65.3%)	<b>\$55,509</b>	<b>\$55,632</b>	<b>\$ (123)</b>	(0.2%)
<i>Free Cash Flow Conversion<sup>(5)</sup></i> . . . . .	<i>75.3%</i>	<i>86.5%</i>			<i>83.3%</i>	<i>89.4%</i>		
Revenue . . . . .	\$146,627	\$119,841	\$ 26,786	22.4%	\$481,130	\$385,837	\$ 95,293	24.7%
Sales volume (tonnes)	3,014	3,523	(509)	(14.4%)	9,925	11,792	(1,867)	(15.8%)

**Notes:**

- (1) Represents other expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (3) Represents share-based compensation expense in respect of the Plan and the LTIP.

(4) These represent primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.

(5) Calculated as Free Cash Flow divided by Adjusted EBITDA<sup>(1)</sup>.

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

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Net (loss) income</b>	<b>\$ (3,812)</b>	<b>\$ 8,136</b>	<b>\$ 33,580</b>	<b>\$ 28,780</b>
<b>Adjustments to net (loss) income:</b>				
Foreign exchange loss <sup>(1)</sup>	723	755	175	1,844
Impairment of assets	—	—	295	—
Share-based compensation <sup>(2)</sup>	735	1,198	1,873	2,761
Other costs (recoveries) <sup>(3)</sup>	—	6	(22)	772
Other items included in other expense <sup>(4)</sup>	520	(260)	2,014	6,162
Tax impact of the above items	(76)	(43)	(473)	(1,341)
<b>Adjusted net (loss) income</b>	<b>\$ (1,910)</b>	<b>\$ 9,792</b>	<b>\$ 37,442</b>	<b>\$ 38,978</b>
<b>Attributable to:</b>				
Equity holders of Neo	\$ (1,817)	\$ 9,692	\$ 37,100	\$ 38,640
Non-controlling interest	\$ (93)	\$ 100	\$ 342	\$ 338
<b>Weighted average number of common shares outstanding:</b>				
Basic	41,368,970	37,913,275	40,913,207	37,738,354
Diluted	41,368,970	38,228,888	41,353,231	38,084,902
<b>Adjusted (loss) earnings per share attributable to equity holders of Neo:</b>				
Basic	\$ (0.04)	\$ 0.26	\$ 0.91	\$ 1.02
Diluted	\$ (0.04)	\$ 0.25	\$ 0.90	\$ 1.01

**Notes:**

- (1) Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (2) Represents share-based compensation expense in respect of the Plan and the LTIP.
- (3) These represent primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.
- (4) Represents other expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.

**8. Discussion and Analysis of Reportable Segments**

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

## 8.1 Magnequench

(\$000s, except volume)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	%	2022	2021	Change	%
<b>Operating income</b> . . . .	\$ 4,897	\$ 8,130	\$ (3,233)	(39.8%)	\$27,995	\$31,805	\$ (3,810)	(12.0%)
<b>Net income</b> . . . . .	\$ 2,255	\$ 5,348	\$ (3,093)	(57.8%)	\$21,321	\$24,937	\$ (3,616)	(14.5%)
Add back (deduct):								
Finance income, net . . . .	(58)	(61)	3		(42)	(163)	121	
Income tax expense . . . .	1,924	2,170	(246)		7,630	7,490	140	
Depreciation and amortization included in costs of sales . . . . .	859	852	7		2,640	2,484	156	
Depreciation and amortization included in operating expenses . . . .	1,365	1,464	(99)		4,265	4,492	(227)	
<b>EBITDA</b> . . . . .	<b>6,345</b>	<b>9,773</b>	<b>(3,428)</b>	<b>(35.1%)</b>	<b>35,814</b>	<b>39,240</b>	<b>(3,426)</b>	<b>(8.7%)</b>
Other income <sup>(1)</sup> . . . . .	(86)	(80)	(6)		(229)	(300)	71	
Foreign exchange loss <sup>(2)</sup> . . . . .	1,193	1,039	154		2,832	1,406	1,426	
Equity income of associates . . . . .	(332)	(288)	(44)		(3,518)	(1,564)	(1,954)	
Share-based compensation <sup>(3)</sup> . . . . .	162	59	103		485	90	395	
<b>Adjusted EBITDA<sup>(1)</sup></b> . . . . .	<b>\$ 7,282</b>	<b>\$10,503</b>	<b>\$ (3,221)</b>	<b>(30.7%)</b>	<b>\$35,384</b>	<b>\$38,872</b>	<b>\$ (3,488)</b>	<b>(9.0%)</b>
<i>Adjusted EBITDA Margins<sup>(1)</sup></i> . . . . .	10.8%	17.5%			16.1%	20.2%		
Revenue . . . . .	\$67,402	\$60,063	\$ 7,339	12.2%	\$219,828	\$192,856	\$ 26,972	14.0%
Sales volume (tonnes) . . . .	1,097	1,374	(277)	(20.2%)	3,620	4,608	(988)	(21.4%)

### Notes:

- (1) Represents other expenses resulting from non-operational related activities. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents unrealized and realized foreign exchange gains and losses that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (3) Represents share-based compensation expense in respect of the Plan and the LTIP.

For the three months ended September 30, 2022, revenue in the Magnequench segment was \$67.4 million, compared to \$60.1 million for the three months ended September 30, 2021; an increase of \$7.3 million or 12.2%. For the nine months ended September 30, 2022, revenue in the Magnequench segment was \$219.8 million, compared to \$192.9 million for the nine months ended September 30, 2021; an increase of \$27.0 million or 14.0%. For the three months ended September 30, 2022, volume was 1,097 tonnes compared to 1,374 tonnes for the three months ended September 30, 2021; a decrease of 20.2%. For the nine months ended September 30, 2022, volume was 3,620 tonnes compared to 4,608 tonnes for the nine months ended September 30, 2021; a decrease of 21.4%. Generally, the differing rates of change for revenue and volumes are primarily attributed to changes in commodity input material prices and, to a lesser extent, product mix. Magnequench has material pricing pass-through agreements with the vast majority of its customers, which enables Magnequench to pass through changes in material input costs into selling price on a lagged basis.

Operating income for the three and nine months ended September 30, 2022 was \$4.9 million and \$28.0 million, respectively, a decrease of \$3.2 million or 39.8% and \$3.8 million or 12.0%, respectively, when compared to the three and nine months ended September 30, 2021.

For the three and nine months ended September 30, 2022, the Magnequench segment saw a decline in volumes compared to the corresponding periods of 2021. Volumes in 2022 were particularly impacted by three factors. First, the recent spike in COVID-19 has affected the free flow of people and production supplies across many parts of Asia. Second, the occurrence of several natural disasters impacted production facilities and customers in Asia. Third, the on-going semiconductor chip shortage is continuing to impact customers in the automotive and other industries. Although Magnequench's products are distributed on global basis, many of its next tier customers are located in Asia and were impacted by the above factors in 2022. In addition, Magnequench is seeing customers change their ordering cycles and behaviours in response to customers' managing their inventory levels in anticipation of potential economic uncertainty.

Margins per ton in the Magnequench segment remained strong in the three months ended September 30, 2022, despite being lower than the margins reported in the first six months of 2022. As rare earth magnetic prices have declined from March 2022, Magnequench is beginning to see the reversal of the lead-lag benefit in the three months ended September 30, 2022 and expects this decline in margins per ton to continue into the fourth quarter of 2022. Magnequench has pass-through pricing agreements for rare earth magnetic elements on the vast majority of its sales contracts. Magnequench earns a targeted margin spread per ton when rare earth prices are stable and over the long term. However, the short-term timing mechanics of the pass-through agreements generally show rising margins when rare earth prices rise and declining margins when rare earth prices fall, related primarily to inventory on hand purchased at previous costs. Pass-through is a key strategic focus of Magnequench and ensures that the business can continue to generate long term sustainable and value-added margins.

Over the last few years, Magnequench has focused on key macro growth trends that are yielding positive sales volume growth in areas such as compression magnets and electrified-automotive applications, including traction motors and pumps.

For the three months ended September 30, 2022, Adjusted EBITDA<sup>(1)</sup> in the Magnequench segment was \$7.3 million, compared to \$10.5 million for the three months ended September 30, 2021; a decrease of \$3.2 million or 30.7%. For the nine months ended September 30, 2022, Adjusted EBITDA<sup>(1)</sup> in the Magnequench segment was \$35.4 million, compared to \$38.9 million in the same period of 2021; a decrease of \$3.5 million or 9.0%.

## 8.2 Chemicals & Oxides

(\$000s, except volume)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	%	2022	2021	Change	%
<b>Operating (loss) income</b>	<b>\$ (5,298)</b>	<b>\$ 7,142</b>	<b>\$(12,440)</b>	(174.2%)	<b>\$21,324</b>	<b>\$27,184</b>	<b>\$(5,860)</b>	(21.6%)
<b>Net (loss) income</b>	<b>\$ (4,342)</b>	<b>\$ 6,611</b>	<b>\$(10,953)</b>	(165.7%)	<b>\$19,312</b>	<b>\$18,765</b>	<b>\$ 547</b>	2.9%
Add back (deduct):								
Finance cost (income), net	177	(19)	196		470	(35)	505	
Income tax expense	(312)	643	(955)		2,874	891	1,983	
Depreciation and amortization included in costs of sales	962	577	385		2,983	1,608	1,375	
Depreciation and amortization included in operating expenses	284	287	(3)		851	862	(11)	
<b>EBITDA</b>	<b>(3,231)</b>	<b>8,099</b>	<b>(11,330)</b>	(139.9%)	<b>26,490</b>	<b>22,091</b>	<b>4,399</b>	19.9%
Other expense (income) <sup>(1)</sup>	397	(6)	403		1,060	7,114	(6,054)	
Foreign exchange (gain) loss <sup>(2)</sup>	(1,217)	(86)	(1,131)		(2,391)	449	(2,840)	
Share-based compensation <sup>(3)</sup>	188	52	136		551	58	493	
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$(3,863)</b>	<b>\$ 8,059</b>	<b>\$(11,922)</b>	(147.9%)	<b>\$25,710</b>	<b>\$29,712</b>	<b>\$(4,002)</b>	(13.5%)
<i>Adjusted EBITDA Margins<sup>(1)</sup></i>	(7.4%)	17.6%			13.6%	19.5%		
Revenue	\$52,231	\$45,677	\$ 6,554	14.3%	\$189,244	\$152,322	\$36,922	24.2%
Sales volume (tonnes)	1,807	2,106	(299)	(14.2%)	6,002	6,972	(970)	(13.9%)

### Notes:

- (1) Represents other expenses resulting from non-operational related activities, including provisions for estimated damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (3) Represents share-based compensation expense in respect of the Plan and the LTIP.

For the three and nine months ended September 30, 2022, revenues in the C&O segment were \$52.2 million and \$189.2 million, respectively, compared to \$45.7 million and \$152.3 million in the same periods of 2021; an increase of \$6.6 million or 14.3% and \$36.9 million or 24.2%, respectively.

For the three and nine months ended September 30, 2022, the C&O segment reported operating loss of \$5.3 million and an operating income of \$21.3 million, respectively, compared to an operating income of \$7.1 million and \$27.2 million in the same periods of 2021; a decrease of \$12.4 million or 174.2% and \$5.9 million or 21.6%, respectively.

In the three months ended September 30, 2022, the C&O segment was adversely impacted by the continuing decline of rare earth prices. Rare earth prices (particularly for magnetic rare earth elements) increased substantially from the third quarter of 2020 to the first quarter of 2022 but have since declined between 30%-40% since March 2022. This rapid decline in rare earth prices has had a negative impact on C&O rare earth separation margins as C&O processed and sold rare earths purchased three to four months earlier (at higher costs). Despite the recent decline, rare earth prices remain more than 100% higher than prices from the recent past (the two to three years prior to the third quarter of 2020). Accordingly, the outlook (both in demand and pricing) remains strong for rare earths which is expected to lead to higher dollar value margins for C&O in the long term. However, the current period was adversely impacted by the immediate and rapid decline of prices while processing higher cost inventory (lead-lag impact). The rapid decline in prices also necessitated C&O to record an \$6.0 million of provisions for inventories in the three months ended September 30, 2022 and this will likely impact margins in the fourth quarter of 2022 (assuming prices hold constant).

In C&O's environmental catalysts business, volumes were reasonably strong in the first nine months of 2022, although they were lower than the comparable periods in the prior year, which benefited from customers refilling their supply chains. Volumes have seen less of an impact from the semi-conductor chip shortage and are distributed much more globally than Magnequench volumes and thus, have not demonstrated the same negative pressures on volume trends as some Magnequench products. C&O's environmentally protective water treatment solutions business continues to perform well with higher volume and new customer adoption, despite challenges in global shipping and logistics availability.

Adjusted EBITDA<sup>(1)</sup> was \$3.9 million loss for the three months ended September 30, 2022; a decrease of 147.9% compared to the same period of the prior year. For the nine months ended September 30, 2022, Adjusted EBITDA<sup>(1)</sup> was \$25.7 million, compared to \$29.7 million in the same period of 2021; a decrease of \$4.0 million or 13.5%.

### 8.3 Rare Metals

(\$000s, except volume)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	%	2022	2021	Change	%
<b>Operating income</b> .....	<b>\$ 5,199</b>	<b>\$ 2,074</b>	<b>\$ 3,125</b>	150.7%	<b>\$13,186</b>	<b>\$4,168</b>	<b>\$ 9,018</b>	216%
<b>Net income (loss)</b> .....	<b>\$ 2,598</b>	<b>\$ (515)</b>	<b>\$ 3,113</b>	604.5%	<b>\$ 6,928</b>	<b>\$ (333)</b>	<b>\$ 7,261</b>	(2,180%)
Add back (deduct):								
Finance cost, net .....	1,308	782	526		2,669	2,612	57	
Income tax expense ..	2,148	849	1,299		5,220	1,864	3,356	
Depreciation and amortization included in costs of sales .....	458	551	(93)		1,422	1,679	(257)	
Depreciation and amortization included in operating expenses ..	75	66	9		218	192	26	
<b>EBITDA</b> .....	<b>6,587</b>	<b>1,733</b>	<b>4,854</b>	280%	<b>16,457</b>	<b>6,014</b>	<b>10,443</b>	174%
Other expense <sup>(1)</sup> .....	137	1,370	(1,233)		905	331	574	
Foreign exchange gain <sup>(2)</sup> .....	(993)	(412)	(581)		(2,536)	(306)	(2,230)	
Share-based compensation <sup>(3)</sup> .....	66	24	42		191	41	150	
Impairment of assets ..	—	—	—		295	—	295	
<b>Adjusted EBITDA<sup>(1)</sup></b> ...	<b>\$ 5,797</b>	<b>\$ 2,715</b>	<b>\$ 3,082</b>	114%	<b>\$15,312</b>	<b>\$ 6,080</b>	<b>\$ 9,232</b>	152%
<i>Adjusted EBITDA Margins<sup>(1)</sup></i> .....	18.4%	13.9%			17.7%	10.8%		
Revenue .....	\$31,567	\$19,509	\$12,058	61.8%	\$86,521	\$56,308	\$30,213	53.7%
Sales volume (tonnes) ...	145	110	35	31.8%	402	389	13	3.3%

#### Notes:

- (1) Represents other expenses resulting from non-operational related activities, including provisions for estimated costs for disposal of historically generated NORM. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (3) Represents share-based compensation expense in respect of the Plan and the LTIP.

For the three months ended September 30, 2022, revenue in the Rare Metals segment was \$31.6 million, compared to \$19.5 million in the same period of the prior year; an increase of \$12.1 million or 61.8%. For the nine months ended September 30, 2022, revenue in the Rare Metals segment was \$86.5 million, compared to \$56.3 million in the same period of the prior year; an increase of \$30.2 million or 53.7%.

For the three and nine months ended September 30, 2022, the Rare Metals segment reported an operating income of \$5.2 million and \$13.2 million, respectively, compared to \$2.1 million and \$4.2 million in the same period of 2021; an increase of \$3.1 million or 150.7% and \$9.0 million or 216%, respectively.

Rare Metals achieved record earnings in the first nine months of 2022, continuing the improvement that started in the fourth quarter of 2021. Rare Metals experienced strength in pricing for key products such as hafnium and tantalum while also benefiting from lower-cost inventory on hand. Hafnium prices, in particular, have increased

rapidly starting in the fourth quarter of 2021 and the segment benefited by having lower-cost inventory on hand. In addition, the recycling purchases and activities of Rare Metals was particularly impactful to lowering its overall material costs as some of the material purchased in the quarter is not rising as fast as selling prices. Accordingly, the higher selling prices are leading to both lead-lag benefits as well as fundamental improvements in the margin spread between current raw material purchase costs and finished goods selling prices. This was partially offset by Rare Metals not selling some of its niobium oxide products to customers resident in or with connections to Russia, resulting in lower margins and higher inventory on hand at period-end for its niobium oxide products.

The improvement in the Rare Metals business in the three and nine months ended September 30, 2022 was also attributable to progress made in several key strategic initiatives in the segment, including selling more products outside of the aerospace industry, expanding its customer base, and diversifying its total end-market exposure. Key progress continues to be made in expanding the capacity of key products, with minimal capital investment and refocusing the sales pipeline and manufacturing capacity toward more profitable end products that require higher purity and can meet demanding specifications. Sales prices in a number of end markets have recovered and gallium-based products are exhibiting improved market demand.

For the three months ended September 30, 2022, Adjusted EBITDA<sup>(1)</sup> in the Rare Metals segment was \$5.8 million, compared to \$2.7 million in the same period of 2021; an increase of \$3.1 million or 114%. For the nine months ended September 30, 2022, Adjusted EBITDA<sup>(1)</sup> was \$15.3 million, compared to \$6.1 million for the nine months ended September 30, 2021; an increase of \$9.2 million or 152%.

## 9. Summary of Consolidated Quarterly Results

(\$000s, except for earnings per share information)	2022			2021			2020	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Revenue</b> .....	\$146,627	\$168,221	\$166,282	\$153,414	\$119,841	\$135,141	\$130,855	\$110,397
<b>Net (loss) income attributable to equity holders of Neo</b> .....	(3,719)	14,607	22,350	6,735	8,036	12,960	7,446	2,219
<b>Basic EPS</b> .....	(0.09)	0.36	0.55	0.17	0.21	0.34	0.20	0.06
<b>Diluted EPS</b> .....	(0.09)	0.36	0.54	0.17	0.21	0.34	0.20	0.06
<b>Operating income</b> .....	2,239	20,963	28,685	12,726	12,558	18,195	16,408	3,190
<b>Net (loss) income</b> .....	(3,812)	14,691	22,701	7,263	8,136	13,027	7,617	2,356
Add back (deduct):								
Finance cost (income), net ..	1,437	2,292	414	3,269	(999)	1,457	216	(2,484)
Income tax expense (benefit)	3,775	6,001	5,995	(702)	3,670	3,479	3,133	832
Depreciation and amortization included in Costs of Sales .....	2,279	2,388	2,378	2,405	1,980	1,912	1,879	1,999
Depreciation and amortization included in operating expenses .....	1,781	1,853	1,896	1,891	1,908	1,935	1,955	1,899
<b>EBITDA</b> .....	<b>5,460</b>	<b>27,225</b>	<b>33,384</b>	<b>14,126</b>	<b>14,695</b>	<b>21,810</b>	<b>14,800</b>	<b>4,602</b>
Add back:								
Other expense (income) <sup>(1)</sup> ..	448	855	433	2,605	1,284	(213)	6,074	2,253
Foreign exchange loss (gain) <sup>(2)</sup> .....	723	(959)	411	2,544	755	788	301	211
Equity (income) loss of associates .....	(332)	(1,917)	(1,269)	(2,253)	(288)	(343)	(933)	22
Share and value-based compensation <sup>(3)</sup> .....	735	957	181	1,765	1,198	(29)	1,592	3,584
Impairment of assets .....	—	295	—	121	—	—	—	—
Other (recoveries) costs <sup>(4)</sup> ..	—	—	(22)	744	6	164	602	1,636
<b>Adjusted EBITDA<sup>(1)</sup></b> .....	<b>\$ 7,034</b>	<b>\$26,456</b>	<b>\$33,118</b>	<b>\$19,652</b>	<b>\$17,650</b>	<b>\$22,177</b>	<b>\$22,436</b>	<b>\$12,308</b>
<b>Adjusted EBITDA Margins<sup>(1)</sup></b> .....	<b>4.8%</b>	<b>15.7%</b>	<b>19.9%</b>	<b>12.8%</b>	<b>14.7%</b>	<b>16.4%</b>	<b>17.1%</b>	<b>11.1%</b>

### Notes:

- (1) Represents other expenses resulting from non-operational related activities, including provisions for estimated damages for outstanding legal claims related to historic volumes, costs for disposal of NORM. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents unrealized and realized foreign exchange losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (3) Represents share and value-based compensation expense in respect of the Plan, the Legacy Plan, the LTIP and the long-term value bonus plan. The long-term value bonus plan has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

- (4) These represent primarily legal, professional advisory fees and other transaction costs incurred/(recovered) with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.

## 10. Liquidity and Capital Resources

*Nine months ended September 30, 2022 compared to nine months ended September 30, 2021:*

(\$000s)	Nine Months Ended September 30,	
	2022	2021
<b><i>Cash flow:</i></b>		
Cash used in operating activities .....	\$ (3,853)	\$ (3,622)
Cash used in investing activities .....	(11,098)	(6,881)
Cash provided by (used in) financing activities .....	53,334	(9,465)
<b><i>Financial position - as at</i></b>		
Cash and cash equivalents .....	\$ 123,903	\$ 89,037
Restricted cash .....	1,210	1,283
Property, plant and equipment .....	71,845	73,378
Total assets .....	638,180	594,082
Bank advances and other short-term debt .....	15,219	6,502
Current portion of long-term debt .....	683	—
Long-term debt .....	5,809	—

As of September 30, 2022, Neo had cash and cash equivalents of \$123.9 million plus restricted cash of \$1.2 million, compared to \$89.0 million plus \$1.3 million as at December 31, 2021. For the nine months ended September 30, 2022, Neo paid \$9.9 million in dividends to its shareholders. Neo has approximately \$117.2 million available under its credit facilities, of which \$21.7 million was drawn as at September 30, 2022, compared to \$6.5 million drawn as at December 31, 2021. Of the \$21.7 million drawn as at September 30, 2022, \$6.5 million relates to amounts borrowed on the Estonian term debt facility. Neo had recently completed a bought deal treasury offering with net proceeds of approximately \$47.7 million. 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, 2021 were the following:

### ***Inflows***

- \$70.0 million from operations before net change in working capital, income taxes paid and net interest received;
- \$47.7 million of net proceeds from issuance of common shares from treasury;
- \$10.5 million from bank advances and other short-term debts; and
- \$7.3 million drawn on the Estonian term debt facility.

### ***Outflows***

- \$9.9 million of dividends paid to shareholders;
- \$1.1 million of lease payments;
- \$11.1 million of other capital spending;
- \$8.8 million of income taxes paid; and
- \$64.6 million net change in working capital.

### ***Cash Used in Operating Activities***

Net cash used in operating activities was \$3.9 million for the nine months ended September 30, 2022, compared to net cash used by operating activities of \$3.6 million for the nine months ended September 30, 2021. Higher cash used in operating activities was primarily due to an increase in net working capital.

The \$64.6 million net change in working capital for the nine months ended September 30, 2022, was primarily attributable to the increase in accounts receivable from higher sales, higher inventory costs driven by higher rare earth costs and C&O produced and holding more finished good in preparation for the upgrade, expansion and relocation of its environmental catalyst production facility, and a decrease in accounts payable and other accrued charges which are generally lower in the first half of the year due to timing of certain expenditures, such as bonuses, audit fees and customer rebates. Rare earth costs have been generally declining since March 2022 and the business would expect to see lower inventory valuations going forward (excluding the impact of future rare earth price changes) as current lower cost purchases offset existing higher cost inventory on hand.

### ***Cash Used in Investing Activities***

For the nine months ended September 30, 2022, net cash used in investing activities was \$11.1 million, compared to \$6.9 million for the nine months ended September 30, 2021. The cash used in investing activities was primarily related to capital projects performed at the NAMCO, Tianjin and Silmet facilities. These capital projects included a combination of maintenance capital to assist with the continuing development and operations of Neo, growth capital to assist in adding new capacity or new products, and strategic capital tied to longer-term strategic planning initiatives. In addition, Neo has made initial investments to acquire a land use right in the design phase to evaluate the planned upgrade, expansion and relocation of Neo's environmental catalyst production facilities.

### ***Cash Provided by (Used in) Financing Activities***

Net cash provided by financing activities during the nine months ended September 30, 2022 was \$53.3 million, compared to \$9.5 million net cash used in 2021. For the nine months ended September 30, 2022, Neo received \$47.7 million of proceeds from issuance of common shares from treasury, drew \$10.5 million from its credit facilities, borrowed \$7.3 million from its Estonia term debt facility, distributed \$9.9 million in dividends to its shareholders, and spent \$1.1 million in lease payments. In the nine months ended September 30, 2021, Neo distributed \$9.2 million in dividends to its shareholders, drew \$3.1 million of bank advances in Germany, received \$2.5 million from stock options exercised, net of \$2.9 million spent on withholding taxes related to stock-based awards, paid \$1.7 million for cash settled RSUs and PSUs, and spent \$1.2 million in lease payments.

Neo has debt agreements in China, Estonia and Germany and, as at September 30, 2022, is in compliance with all required covenants. Neo also has a global consolidated debt agreement with EDC, for which no amounts are currently drawn and Neo is in compliance with all required covenants.

(\$000s)

<i>Cash and cash equivalents by Country as at</i>	<b>September 30, 2022</b>	<b>December 31, 2021</b>
China (including Hong Kong) .....	\$ 38,113	\$ 24,627
Estonia .....	1,593	2,034
United States .....	6,547	3,113
Canada .....	52,854	38,903
Japan .....	3,331	2,612
United Kingdom .....	3,301	3,273
Germany .....	5,029	6,225
Singapore .....	6,899	2,761
Barbados .....	486	298
Thailand .....	4,865	4,248
Cayman Islands .....	5	6
Other .....	880	937
<b>Total cash and cash equivalents</b> .....	<b>\$ 123,903</b>	<b>\$ 89,037</b>

Approximately \$6.6 million of cash on hand held by Neo's foreign operating subsidiaries relate to earnings that are considered indefinitely reinvested in these foreign subsidiaries. Although substantially all of Neo's cash and cash equivalents can be repatriated, a portion may be subject to withholding taxes under current tax laws. While some of Neo's subsidiaries are subject to local governmental restrictions on the flow of capital into and out of its 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.

On August 16, 2022, Neo entered into a loan agreement (the "**Loan Agreement**") with EDC for a term loan of up to \$75.0 million (the "**Credit Facility**"), to be advanced in three tranches of \$25.0 million, to finance the relocation, expansion, and sustainability upgrades to one of its environmental emissions catalyst manufacturing facilities (the "**NAMCO Project**").

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

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

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

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

In addition to cash on hand, the primary sources of liquidity for Neo's domestic and foreign subsidiaries are cash provided by operations and, in the case of the activities in China, Estonia and Germany, borrowing under certain

bank loans. From time to time, the sources of liquidity for Neo's operating subsidiaries may be supplemented by intercompany loans in the form of unsecured promissory notes. Neo's operating subsidiaries' liquidity generally is used to fund their working capital requirements, investments, capital expenditures (including costs related to the relocation of NAMCO production facility) and third-party debt service requirements.

## 11. Contractual Obligations

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

(\$000s)	Payments Due by Period				
	1 year	2 - 3 years	4 - 5 years	Thereafter	Total
Bank advances and other short-term debts	\$ 15,219	\$ —	\$ —	\$ —	15,219
Accounts payable and other accrued charges	60,785	—	—	—	60,785
Derivative liability <sup>(1)</sup>	17,206	—	—	—	17,206
Long-term debt <sup>(2)</sup>	683	1,367	4,442	—	6,492
Provisions <sup>(3)</sup>	643	23,020	—	—	23,663
Lease obligations <sup>(4)</sup>	1,082	1,063	53	27	2,225
Other liabilities	364	1,067	67	201	1,699
<b>Total</b>	<b>\$ 95,982</b>	<b>\$ 26,517</b>	<b>\$ 4,562</b>	<b>\$ 228</b>	<b>\$ 127,289</b>

### Notes:

- (1) Represents the fair value of the put option on shares of the remaining shareholder of Buss & Buss.
- (2) On December 23, 2021, Silmet entered into a \$6.8 million (€7.0 million) credit facility with OP Corporate Bank plc Eesti filiaal ("OP Bank") to finance working capital and other investments at Silmet. For the nine months ended September 30, 2022, Silmet had repaid \$0.4 million of this loan.
- (3) Represents management's best estimate of the costs to be incurred by Neo for the disposal of the hazardous NORM currently being stored at JAMR facility and an estimated damages provision related to legal proceedings (see "Other Expenditures and Legal Contingencies").
- (4) Represents the present value of Neo's lease obligations for office space, land and office equipment.

As at September 30, 2022, Neo had \$123.9 million of cash and cash equivalents and approximately \$1.2 million of restricted cash. The restricted cash is held as collateral against Letters of Credit. Neo believes that the remainder of its cash, in addition to cash from operating activities, is available (or sufficient) to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months. Neo considers cash to be "available" to the extent it can be utilized in operating activities, for capital expenditures, for intercompany loans or for repatriation. Neo also maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

## 12. Normal Course Issuer Bid

On June 1, 2021, Neo announced that the TSX had accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**Bid**") for up to 2,111,758 of its issued and outstanding common shares. In connection with the Bid, Neo has entered into an automatic share purchase plan with its designated broker to allow for purchases of its shares (the "**Share Purchase Plan**"). The Share Purchase Plan is considered an "automatic plan" for purposes of applicable Canadian securities laws. Under the Share Purchase Plan, Neo's broker may purchase shares on any trading day during the Bid, including during self-imposed trading blackout periods. The price that Neo will pay for any shares purchased under the Bid will be the prevailing market price at the time of purchase. Any shares purchased by Neo will be canceled. The Share Purchase Plan terminated on June 3, 2022.

For the three and nine months ended September 30, 2022, Neo did not repurchase or cancel any shares. There were no shares repurchased for the three months ended September 30, 2021. For the nine months ended September 30, 2021, Neo repurchased and canceled 3,400 shares for a nominal amount.

## 13. Subsequent Events

On August 26, 2022, Hastings Technology Metals Ltd. ("**Hastings**") entered into a binding Share Purchase Agreement with an affiliate of Oaktree Capital L.P. ("**Oaktree**") to acquire 8,974,127 common shares of Neo at Cdn. \$15.00 per share, for an aggregate purchase price of Cdn. \$134.6 million ("**transaction**"). The transaction was completed on October 13, 2022.

Following the completion of the transaction and treasury offering, Hastings holds 8,974,127 common shares of Neo representing 19.9% of the issued and outstanding common shares of Neo and Oaktree holds 904,028 common shares of Neo representing 2.0% of the issued and outstanding common shares of Neo.

On November 10, 2022, the Board of Directors declared a quarterly dividend of Cdn. \$0.10 per common share payable in cash on December 29, 2022, to common shareholders of record at the close of business on December 20, 2022.

## 14. Off-Balance Sheet Arrangements

As of September 30, 2022, Neo's only off-balance sheet arrangements are purchase obligations.

## 15. Significant Management Judgment in Applying Accounting Policies

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

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

For a discussion about the significant estimates used in determining the carrying value of inventory, deferred tax assets, useful lives of depreciable assets, provisions, impairment of tangible and intangible assets, defined benefit pension liability, fair value of financial instruments, share-based compensation and expected credit losses, please refer to the MD&A dated March 9, 2022. Neo cautions readers that the actual results could differ materially from those estimates and assumptions.

Neo continues to monitor the ongoing situation of the COVID-19 pandemic and its impacts will depend on future developments such as the duration and severity of the disease, possibility of resurgence, and actions taken by authorities to control the spread of the disease. The extent of the impact the disease may have on Neo's business remains highly uncertain and cannot be predicted with confidence.

Any future developments related to the COVID-19 pandemic could have a material adverse effect on Neo's business and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in Neo's financial statements could change in the near term and the effect of any such changes could be material, which could result in, among other things, an impairment of non-current assets and a change in the expected credit losses on accounts receivable. Neo is regularly evaluating the COVID-19 situation and monitoring any impacts on its business.

## 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.

### *Transactions with associates*

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Purchase of goods and services from associates:				
TMT .....	\$ 1,453	\$ 628	\$ 2,528	\$ 1,586
Keli .....	20,514	18,321	65,318	52,774
QGD .....	164	2,810	12,933	13,373
Sales of goods and services to associates:				
TMT .....	1,283	2,629	6,668	6,499
Keli .....	—	1,814	1,374	4,294

### *Transactions with joint venture partners*

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Sale of goods to Toda .....	\$ 148	\$ 314	\$ 1,302	\$ 786
Purchase of goods from Qian Dong .....	6	202	1,645	1,283

***Transactions with other related parties***

Neo, through one of its subsidiaries in China, MQCZ, has occasionally sold products to Atatsu Co., Ltd. ("Atatsu") for resale to third party customers. Atatsu is controlled by members of MQCZ's key management personnel. For the three and nine months ended September 30, 2022, sales to Atatsu were \$0.7 million and \$1.0 million, respectively. For the three and nine months ended September 30, 2021, sales to Atatsu were \$0.1 million and \$0.4 million, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Sale of goods and services to related parties .....	\$ 2,745	\$ 4,900	\$ 12,346	\$ 13,420
Purchase of goods and services from related parties .....	22,137	21,961	82,424	69,016
Trade balances:			<u>September 30, 2022</u>	<u>December 31, 2021</u>
from related parties .....		\$ 1,033	\$ 1,033	\$ 2,070
due to related parties .....		(7,441)	(7,441)	(25,925)
<b>Total</b> .....		<b>\$ (6,408)</b>	<b>\$ (6,408)</b>	<b>\$ (23,855)</b>

***Directors and Key Management Compensation***

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

Neo's short-term compensations are as follows:

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Directors .....	110	87	306	260
Key Executive Management .....	1,042	990	4,247	3,028
<b>Total</b> .....	<b>\$ 1,152</b>	<b>\$ 1,077</b>	<b>\$ 4,553</b>	<b>\$ 3,288</b>

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

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Directors .....	(359)	344	(833)	615
Key Executive Management .....	956	681	2,224	1,817
Total .....	<u>\$ 597</u>	<u>\$ 1,025</u>	<u>\$ 1,391</u>	<u>\$ 2,432</u>

## 17. Financial Instruments and Risk Management

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

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

The level in which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the consolidated statements of financial position as at September 30, 2022, are grouped into the fair value hierarchy as follows:

(\$000s)	Level 1	Level 2	Level 3
<b>Financial Assets:</b>			
Equity securities .....	\$ 713	\$ —	\$ —
<b>Financial Liabilities:</b>			
Put option issued to non-controlling interest of Buss & Buss .....	\$ —	\$ —	\$ 17,206

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

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not significantly change amounts recognized in net income, total assets, total liabilities or total equity.

There have been no transfers between levels for the period ended September 30, 2022.

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

### *Commodity price risk*

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

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

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

### ***Foreign currency risk***

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

### ***Credit risk***

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

Under IFRS 9, Neo calculates a loss allowance using the expected credit loss impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at September 30, 2022, the loss allowance was approximately \$0.5 million. The estimated credit losses are included in selling, general and administrative expenses in the consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose Neo to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at September 30, 2022, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

### ***Liquidity risk***

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

## **18. Recent Accounting Pronouncements**

Neo adopted the following accounting standards and amendments to accounting standards during the period ended September 30, 2022:

### **18.1 Onerous Contracts - Costs of Fulfilling a Contract (Amendments to IAS 37)**

On May 14, 2020, the IASB issued amendments to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract to specify that the 'cost of fulfilling' a contract comprise both:

- incremental costs of fulfilling that contract, for example direct labour and materials; and
- an allocation of other costs that relate directly to fulfilling contracts, for example the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.

The amendments were effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. The amendment was adopted by Neo on January 1, 2022. The amendment did not have a material impact on the interim condensed consolidated financial statements.

### **18.2 Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)**

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. More specifically:

- the amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists;
- the amendments clarify that classification is unaffected by expectations, or to any periods retrospectively, about whether an entity will exercise its right to defer settlement of a liability; and
- the amendments clarify the situations that are considered settlement of a liability.

The new guidance was effective for annual periods starting on or after January 1, 2023 and has been applied retrospectively. The new guidance was adopted by Neo on January 1, 2022. The amendment did not have a material impact on the interim condensed consolidated financial statements.

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

### **18.3 Definition of Accounting Estimates (Amendments to IAS 8)**

On February 12, 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS 8) to introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The new guidance will be effective for annual periods starting on or after January 1, 2023 and will be applied prospectively, with earlier application permitted.

### **18.4 Disclosure Initiative - Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)**

On February 12, 2021, the IASB issued Disclosure Initiative - Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) to help companies provide useful accounting policy disclosures. The key amendments include:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments are effective for annual periods beginning on or after January 1, 2023 and will be applied prospectively, with early adoption permitted.

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

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

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

Neo does not anticipate that any of these amendments will have a material impact on its consolidated financial statements.

## **19. Internal Control Over Financial Reporting and Disclosure Controls and Procedures**

### *Disclosure controls and procedures*

Neo's Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") are responsible for establishing and maintaining disclosure controls and procedures for Neo. Neo maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis. The CEO and CFO have evaluated the design and operating effectiveness of Neo's disclosure controls and procedures ("**DC&P**") as at September 30, 2022 and based on the evaluation, the CEO and CFO have concluded that the DC&P were effective.

### *Internal controls over financial reporting*

Neo's internal controls over financial reporting ("**ICFR**") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Neo's management is responsible for establishing and maintaining adequate ICFR for Neo. National Instrument 52-109 of the Canadian Securities Administrators requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for Neo and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to Neo's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. There have been no material changes during the quarter ended September 30, 2022. Neo's management, under the supervision of the CEO and CFO, has evaluated the design and operating effectiveness of Neo's ICFR based on the Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As at September 30, 2022, management assessed that Neo's ICFR were effective.

In designing such controls, management, including the CEO and CFO, recognized that due to inherent limitations, any controls, no matter how well designed and operating effectively, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect all errors and fraud with respect to the

financial statement preparation and presentation. Additionally, management is required to use judgment in evaluating controls and procedures.

## 20. 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 9, 2022 and Neo's 2021 Annual Information Form ("AIF").

## 21. Outstanding Shares Data

<b>Class of Equity Security</b>	<b>Numbers Outstanding as at September 30, 2022</b>
Common Shares .....	45,196,921
Stock Options* .....	1,158,228
Restricted Share Units & Performance Stock Units .....	285,487

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

The number of common shares outstanding as at November 10, 2022 is 45,196,921.

## 22. Additional Information

Additional information is included in Neo's AIF available on Neo's website at [www.neomaterials.com](http://www.neomaterials.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

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**MD&A Endnotes**

- I. See Section 8 "*Non-IFRS Measures*", which includes reconciliation of such non-IFRS measures to the most directly comparable IFRS measures.
- II. See Sectional 8 "*Non-IFRS Measures*", which includes definitions and calculations of such non-IFRS ratios.