



Performance Materials

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2024

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, 2023, dated March 14, 2024, and the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2024, available on Neo's website at www.neomaterials.com and on SEDAR+ at www.sedarplus.ca. Unless otherwise stated, references in this section to "Neo", "our", "we" or "Group", refer to Neo Performance Materials Inc. and its consolidated subsidiaries.

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

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

The discussion and analysis in this MD&A are based upon information available to management as of August 8, 2024. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur that could affect Neo in the future.

1. Forward-Looking Information

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

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

The forward-looking statements contained in this MD&A are provided as of the date of this MD&A and expressly qualified by this cautionary statement. Neo does not undertake any obligation to publicly update or revise any forward-looking information except as expressly required by applicable securities laws.

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 1,780 employees and a global platform that includes 10 manufacturing facilities located in China, the United States ("U.S."), Germany, Canada, Estonia, the United Kingdom ("UK") and Thailand, as well as one dedicated research and development ("R&D") centre in Singapore. Since 1994, Neo has leveraged its processing expertise to innovate and grow into a leading manufacturer of advanced industrial materials for specialty end markets. Neo has established itself as a leading commercial partner to some of the world's largest customers in the automotive, manufacturing, semiconductor, advanced electronic, and specialty chemical industries. As a result, Neo is well positioned in markets that are forecast to see robust, long-term growth driven by multiple global macro trends, such as vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and superalloys. Neo identifies growth markets driven by global macro trends such as these, and produces highly engineered industrial materials that are critical to the performance of applications in those markets.

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

Magnequench

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

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

Magnequench is also building a new sintered magnet facility in Europe which is expected to be commissioned in 2025. The new facility will manufacture and distribute sintered magnets which are critical in clean energy technologies, such as traction motors for electric vehicles and generators for wind turbines.

On April 19, 2023, Neo completed its acquisition of SG Technologies Group Limited and its wholly-owned subsidiaries (collectively referred to as "SGTec"), one of Europe's leading advanced, specialty manufacturers of rare-earth-based and other high-performance magnets for industrial and commercial markets.

C&O

The C&O segment manufactures and distributes a broad range of advanced industrial materials that have become an indispensable part of modern life. Neo's world-class processing and advanced materials manufacturing capabilities enable Neo to meet increasingly demanding specifications from manufacturers that need custom engineered materials. Applications from these products include automotive catalysts, permanent magnetics, consumer electronics, petroleum refining catalysts, medical devices, and wastewater treatment.

Rare Metals

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

Corporate

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

3. Selected Financial Highlights

(\$000s, except per share information)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2024	2023	2022	2024	2023	2022
Revenue						
Magnequench	\$ 42,096	\$ 49,329	\$ 78,412	\$ 87,576	\$ 104,494	\$ 152,426
C&O	34,478	71,276	69,350	74,991	122,565	137,013
Rare Metals	31,909	49,825	25,892	69,187	78,901	54,954
Corporate / Eliminations	(934)	—	(5,433)	(2,110)	—	(9,890)
Consolidated Revenue	\$ 107,549	\$ 170,430	\$ 168,221	\$ 229,644	\$ 305,960	\$ 334,503
Operating Income (Loss)						
Magnequench	\$ 2,257	\$ 1,077	\$ 12,862	\$ 5,641	\$ 2,032	\$ 23,098
C&O	198	1,524	8,146	(1,906)	(4,602)	26,622
Rare Metals	8,573	16,686	4,264	17,373	22,518	7,987
Corporate / Eliminations	(5,204)	(5,612)	(4,309)	(9,336)	(10,270)	(8,059)
Consolidated Operating Income	\$ 5,824	\$ 13,675	\$ 20,963	\$ 11,772	\$ 9,678	\$ 49,648
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")⁽¹⁾						
Magnequench	\$ 6,168	\$ 5,274	\$ 15,325	\$ 12,280	\$ 8,530	\$ 28,102
C&O	2,651	2,913	9,663	2,271	(1,649)	29,573
Rare Metals	8,786	16,950	5,174	18,024	23,114	9,515
Corporate / Eliminations	(4,213)	(5,589)	(3,706)	(8,423)	(9,660)	(7,617)
Consolidated Adjusted EBITDA	\$ 13,392	\$ 19,548	\$ 26,456	\$ 24,152	\$ 20,335	\$ 59,573
Net Income (Loss)						
	\$ 883	\$ 329	\$ 14,691	\$ 1,732	\$ (10,371)	\$ 37,392
Attributable to:						
Equity holders of Neo	859	310	14,607	1,732	(10,144)	36,957
Non-controlling interest	24	19	84	—	(227)	435
Earnings (loss) per share attributable to equity holders of Neo						
Basic	\$ 0.02	\$ 0.01	\$ 0.36	\$ 0.04	\$ (0.22)	\$ 0.91
Diluted	\$ 0.02	\$ 0.01	\$ 0.36	\$ 0.04	\$ (0.22)	\$ 0.90
Adjusted Net Income (Loss)⁽²⁾						
	\$ 5,251	\$ 2,465	\$ 15,887	\$ 5,644	\$ (6,516)	\$ 39,352
Attributable to:						
Equity holders of Neo	5,227	2,446	15,803	5,644	(6,289)	38,917
Non-controlling interest	24	19	84	—	(227)	435
Adjusted earnings (loss) per share attributable to equity holders of Neo ⁽²⁾ :						
Basic	\$ 0.13	\$ 0.05	\$ 0.39	\$ 0.14	\$ (0.14)	\$ 0.96
Diluted	\$ 0.12	\$ 0.05	\$ 0.39	\$ 0.13	\$ (0.14)	\$ 0.95
Cash spent on property, plant and equipment and intangible assets						
	\$ 10,677	\$ 6,140	\$ 2,582	\$ 26,656	\$ 9,652	\$ 9,364
Cash taxes paid						
	\$ 5,790	\$ 2,772	\$ 3,046	\$ 13,303	\$ 8,033	\$ 4,411
Dividends paid to shareholders						
	\$ 3,127	\$ 3,343	\$ 3,155	\$ 6,211	\$ 6,722	\$ 6,338
Repurchase of common shares under Normal Course Issuer Bid						
	\$ —	\$ 1,202	\$ —	\$ 2,250	\$ 1,202	\$ —
				June 30		
				December 31		
				2024	2023	2022
Cash and cash equivalents				\$ 100,483	\$ 86,895	\$ 147,491
Bank advances & other short-term debt				\$ —	\$ —	\$ 17,288
Current & long-term debt				\$ 49,454	\$ 25,331	\$ 30,632

Notes:

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

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

Highlights for the three and six months ended June 30, 2024

Consolidated Results

- For the three and six months ended June 30, 2024, consolidated revenues were \$107.5 million and \$229.6 million, respectively, compared to \$170.4 million and \$306.0 million, respectively, in the same periods of 2023; a decrease of \$62.9 million or 36.9% compared to the prior three-month period and a decrease of \$76.3 million or 24.9% compared to the prior six-month period. Operating income for the three and six months ended June 30, 2024 was \$5.8 million and \$11.8 million, a decrease of \$7.9 million and an increase of \$2.1 million, respectively, compared to the same periods of the prior year. Adjusted EBITDA⁽¹⁾ for the three and six months ended June 30, 2024 was \$13.4 million and \$24.2 million, respectively, a decrease of \$6.2 million and an increase of \$3.8 million, respectively, compared to the same periods of the prior year.
- Rare earth prices remain under pressure driven by continued sluggish demand coupled with rising supply, as China continues to increase production quotas and existing operating mines in the rest of the world continue to increase capacity and output. During the first half of 2024, prices for rare earth magnetic elements neodymium ("Nd") and praseodymium ("Pr") declined by approximately 20% while prices for dysprosium ("Dy") and terbium ("Tb") declined by approximately 30%. These declines were primarily seen during the first quarter of 2024 with prices remaining relatively flat during the second quarter of 2024. As a result of these price declines, margins have been negatively impacted due to unfavourable lead-lag (the processing and selling of higher cost inventory purchased months earlier). This impact is primarily observed in the C&O rare earth separation business which delivered negative gross margin in fiscal year 2023 and through the first half of 2024. Although prices remain subdued, rates of rare earth pricing declines are slowing which is expected to translate to reduced earnings volatility in C&O. See further discussion on impact of volatility of rare earth prices in section 5.5 under the heading "*Impact of Rare Earth Prices on Margin and Mitigating Actions*".
- For the three months ended June 30, 2024, Magnequench volumes and margins were up year over year, driven by continued growth in magnet volumes and recovery in traction motor volumes. C&O rare earth separation continues to deliver negative gross margin due to declining rare earth prices while C&O environmental emission catalyst delivered strong gross margin albeit at lower volumes compared to prior year. Rare Metals' facilities are all performing well with strength in hafnium continuing to be the largest contributor to margin performance.
- Neo remains focused on executing its two major capital projects. Firstly, the relocation of its environmental emissions catalyst business in China which is nearing completion, expected to be running at full production levels in the fourth quarter of 2024, and is anticipated to finish under budget. Secondly, the new sintered magnet facility in Europe is on budget and on schedule with the building structure complete and all critical equipment ordered.
- In addition, Neo has recently announced several notable strategic actions including the shut down of its light rare earth separation facility in China, and the sale of its gallium trichloride facility in Quapaw, Oklahoma. These actions are part of Neo's ongoing strategic assessment of its portfolio with the goal of focusing the business on downstream value add operations, increasing sourcing optionality, improving return on capital employed, and reducing earnings volatility. Neo will continue to drive actions across the portfolio to further deliver improvements in these areas.

Magnequench Segment

- For the three and six months ended June 30, 2024, revenues in the Magnequench segment were \$42.1 million and \$87.6 million, respectively, compared to \$49.3 million and \$104.5 million, respectively in the same periods of 2023; decreases of \$7.2 million and \$16.9 million, respectively. Operating income in the Magnequench segment for the three and six months ended June 30, 2024 was \$2.3 million and \$5.6 million, respectively, increases of \$1.2 million and \$3.6 million, respectively, when compared to the same periods of 2023. Adjusted EBITDA⁽¹⁾ in the Magnequench segment for the three and six months ended June 30, 2024 was \$6.2 million and

\$12.3 million, respectively, compared to \$5.3 million and \$8.5 million, respectively, in the same periods of 2023; increases of \$0.9 million and \$3.8 million, respectively.

- For the three and six months ended June 30, 2024, Magnequench segment volumes of 1,190 and 2,403 tonnes saw an increase of 14.8% and 18.7%, respectively, compared to the same periods of 2023, driven by continued growth in the magnet business and traction motor demand recovering to expected run rate levels. Magnequench continues to deliver volume gains driven by growth in automotive applications and the acquisition of SGTec. Magnetic powders in traction motor applications also delivered substantial volume growth compared to the same period in 2023 driven by market recovery with additional upside driven by customer inventory build in the first quarter ahead of new vehicle model launches later in the year. Magnequench has a positive long-term outlook on the traction motor business with its current product offering, which is the only heavy rare earth free magnet on a traction motor platform, as well as future growth prospects with its new sintered magnet facility in Europe currently under construction. Although the Magnequench business has seen volumes recover and stabilize over the last four quarters, volumes remain below expectations due to continued demand softness within select end-markets of the magnetic powder business; most notably, European circulation pumps, electric power steering, and factory automation applications.
- With Adjusted EBITDA⁽¹⁾ of \$12.3 million through the first half of 2024, Magnequench margins remain in line with expectations. Despite continued headwinds from declining rare earth prices, the business remains disciplined in taking operational and commercial actions to improve profitability. The business continues to utilize pass-through pricing provisions for material costs to mitigate the impact of lead-lag from declining rare earth prices. See further discussion in section 5.5 under the heading *"Impact of Rare Earth Prices on Margins and Mitigating Actions"*. In addition, after notable cost actions in 2023 (including reducing conversion costs by approximately 20%), Magnequench remains steadfast on initiatives to further improve conversion costs and operational efficiency within its processes (i.e. through increasing yield, driving process efficiency through automation, and reducing utility costs).
- Magnequench remains focused on maintaining its global leadership position in the magnetic powder industry while growing its magnet business; this includes launching its European sintered magnet plant which will be a long-term growth catalyst for the business. Magnequench initiated construction on the European sintered magnet plant in June 2023; the plant will be the first sintered magnet manufacturing facility in Europe designed to produce specialized rare earth permanent magnets for use in electric vehicles, wind turbines, and other clean energy technologies. In August 2024, the business secured its first award for the new facility from a Tier 1 automotive supplier in Europe. See further discussion in section 5.3.1 under the heading *"Sintered Magnet Plant in Europe"*. Magnequench continues to be well positioned to benefit in the growth of permanent magnets with experience supplying the automotive industry, deep technical expertise in producing permanent magnets, and offering a dual supply chain of permanent magnetic materials both inside and outside of China.

Chemicals & Oxides ("C&O") Segment

- For the three and six months ended June 30, 2024, revenues in the C&O segment were \$34.5 million and \$75.0 million, respectively, compared to \$71.3 million and \$122.6 million, respectively, in the same periods of 2023; decreases of \$36.8 million and \$47.6 million, respectively. For the three and six months ended June 30, 2024, the C&O segment reported operating income of \$0.2 million and operating loss of \$1.9 million, respectively, compared to operating income of \$1.5 million and an operating loss of \$4.6 million, respectively, in the same periods of 2023. Adjusted EBITDA⁽¹⁾ was \$2.7 million and \$2.3 million, respectively, for the three and six months ended June 30, 2024; a decrease of \$0.3 million and an increase of \$3.9 million, respectively, when compared to the same periods of 2023.

- The C&O rare earth separation business continued to face declining rare earth prices through the first half of 2024 which has been the primary headwind for the business since the third quarter of 2022. The declines in rare earth prices resulted in unfavourable lead-lag which negatively impacts C&O rare earth separation margins. See further discussion in section 5.5 under the heading *"Impact of Rare Earth Prices on Margins and Mitigating Actions"*. In addition, the C&O separation business saw reduced demand for premium products as certain customers in Korea and Japan go through an inventory destocking cycle. These headwinds drove C&O rare earth separation to deliver negative \$2.6 million in gross margin through the first half of 2024, putting pressure on overall C&O earnings. Declining rare earth prices have negatively impacted the entire industry with upstream and midstream companies facing significant margin pressure and pre-production mines facing challenges with economic feasibility at current price levels.
- Neo continues to review assets across the portfolio evaluating operating strategy and financial performance with the goal of improving return on capital, reducing earnings volatility and focusing on high value downstream operations. As part of this process, Neo has taken action within one of its China based C&O rare earth separation facilities. In April 2024, Neo shut down its light rare earth separation business in Zibo Jiahua Advanced Material Resources Co., Ltd. ("**ZAMR**"), resulting in \$0.6 million of impairment of assets during the second quarter. This action is expected to return cash to the business with no expected adverse impact on Neo's Adjusted EBITDA⁽¹⁾. See further discussion in section 5.2 under the heading *"ZAMR Facility Closure"*.
- The C&O environmental emissions catalyst business has delivered solid performance as it executes the relocation of its primary facility, Neo Jia Hua Advanced Materials (Zibo) Co., Ltd. ("**NAMCO**"), in China. During the first half of 2024, the business has worked through completing construction, qualifying samples, and preparing for full production ramp while maintaining performance on customer deliveries. Subject to customers' qualifications and approvals of samples, NAMCO is expected to be running at full production levels in the fourth quarter of 2024. With the project and equipment installation nearing final completion, the total forecasted capital spend for the NAMCO project has been reduced to \$70.0 million (\$5.0 million below budget). See further discussion in section 5.1 under the heading *"NAMCO Relocation, Upgrade and Modernization"*.

Rare Metals Segment

- For the three and six months ended June 30, 2024, revenues in the Rare Metals segment were \$31.9 million and \$69.2 million, respectively, compared to \$49.8 million and \$78.9 million, respectively, in the same periods of 2023; decreases of \$17.9 million and \$9.7 million, respectively. Operating income for the three and six months ended June 30, 2024 was \$8.6 million and \$17.4 million, respectively, compared to \$16.7 million and \$22.5 million, respectively, in the same periods of 2023; decreases of \$8.1 million and \$5.1 million, respectively. Adjusted EBITDA⁽¹⁾ for the three and six months ended June 30, 2024 was \$8.8 million and \$18.0 million, respectively, compared to \$17.0 million and \$23.1 million, respectively, in the same periods of 2023; decreases of \$8.2 million and \$5.1 million, respectively.
- With a healthy order book of contracted hafnium volumes, the Rare Metals segment delivered strong financial performance in the first half of 2024. Adjusted EBITDA⁽¹⁾ of \$8.8 million in the second quarter of 2024 was slightly ahead of expectations but below prior year which saw high hafnium spot sales volume as customers built inventory amidst rising prices likely due to increased demand from the latest generation of memory chips. This abnormal level of spot sales volume in the second quarter of 2023 pulled volume forward from the second half of 2023, whereas the first half of 2024 has seen stable spot sales volume. The hafnium business remains well positioned for the second half of 2024 with inventory secured to deliver against contracted volumes. This will also allow the business to continue to capitalize on spot sales opportunities at market prices while working down inventory levels and delivering additional operating cash flow.

- The Rare Metals segment continues to deliver improved financial and operational performance through notable changes to its manufacturing strategy. This includes the fourth quarter 2023 decision to halt energy-intensive hydrometallurgical processing of niobium and tantalum bearing ores in Silmet, Estonia. This shift in focus towards downstream metal making has delivered improved operating efficiency through higher machine utilization and yield, which has directly translated to substantial improvements in operating margins through the first half of 2024. In August 2024, the business announced the sale of an 80% equity interest in its Quapaw, Oklahoma facility which produces gallium trichloride used in LED lighting, lithium batteries, integrated circuit chips, and capacitors. This action enables the business to simplify its manufacturing footprint while focusing its efforts on core end-markets and products. The sale proceeds are expected to be \$1.4 million and the transaction expected to close during the third quarter of 2024.

Cash and Other Highlights for the six months ended June 30, 2024

- Neo's balance sheet remains strong, underscoring its sound financial position. As at June 30, 2024, Neo had \$100.5 million in cash and \$0.1 million in restricted cash, offset by \$49.5 million drawn from its Export Development Canada ("**EDC**") credit facility, resulting in net cash of \$51.1 million. Neo repaid \$1.5 million of term loan facilities at SGTec in the six months ended June 30, 2024.
- Cash from operating activities was \$26.0 million for the six months ended June 30, 2024. Cash generation was driven by strong income from operations and continued working capital reductions, specifically, reductions of inventory as Neo continued to convert its higher-cost rare earth feedstock; as well as release of strategic inventory held to support contracted hafnium volumes in the first half of 2024.
- Neo invested \$26.7 million in capital expenditures for the six months ended June 30, 2024, compared to \$9.7 million for the six months ended June 30, 2023. Of this amount, \$12.8 million was related to the NAMCO relocation, upgrade and modernization, \$1.7 million related to borrowing costs incurred on the EDC credit facility, and \$10.3 million related to ongoing spend for the construction of the sintered magnet manufacturing facility in Europe.
- Neo has shown strong commitment to returning capital to shareholders. For the six months ended June 30, 2024, Neo repurchased and cancelled 398,871 shares for \$2.3 million, completing the Normal Course Issuer Bid ("**NCIB**") program which began in June 2023. In addition, Neo paid \$6.2 million in dividends to its shareholders for the six months ended June 30, 2024.

Expectations for 2024 and 2025 Financial Performance

- With first half of 2024 consolidated Adjusted EBITDA⁽¹⁾ of \$24.2 million, Neo has had a strong start to the year despite declining rare earth prices and continued soft demand in select end markets. Neo's fiscal year 2024 outlook for Adjusted EBITDA⁽¹⁾ is \$45 million to \$50 million, which is a 20 to 35% increase over prior year.
- Neo continues to take transformational actions within its portfolio, positioning it to be more focused and resilient. For fiscal year 2025, Neo expects continued improvement in financial performance, establishing a fiscal year 2025 outlook of double-digit percentage Adjusted EBITDA⁽¹⁾ growth compared to fiscal year 2024.

4. Non-Operating Geopolitical Impacts

4.1 Potential Impact of Ongoing Conflict with Russia in Ukraine

The actions of Russian military forces in Ukraine have escalated tensions between Russia and Ukraine, the European Union ("EU"), the North Atlantic Treaty Organization ("NATO"), the UK, the U.S., and other countries. Several countries have imposed a series of sanctions targeting Russia, two separatist pro-Russian regions in Ukraine, and certain individuals, banks and corporations that are seen as allies to the administration in Russia. Through to June 30, 2024, there has been no significant impact on Neo's operations.

Neo's facility in Silmet, Estonia, sources the majority of its rare earth feedstock from a Russian supplier. As of the date hereof, however, Neo has not had significant issues securing raw materials. With the assistance of external advisory firms, Neo continues to monitor the impact of these sanctions on its business including purchases and sales to entities that may have connections to Russia. Neo currently expects, but cannot be certain, that these sanctions will not materially affect its access to the inputs needed to operate.

4.2 Potential Impact of China Export Restrictions

In August 2023, the Government of China announced export restrictions on gallium causing a sharp upward price trend for gallium outside of China in the second half of 2023. This trend stabilized during the first half of 2024 with gallium outside of China selling at 30-40% above prices within China. As expected, exports of gallium from China during the first half of 2024 were down from historical levels as market participants go through the licensing and approval process to export gallium. Outside of China, gallium demand remains strong, and the Rare Metals facility in Peterborough, Ontario is one of the only gallium recycling operations in North America. The primary constraint to growth is securing supply of gallium waste streams, and the business continues to take actions including expanding tolling arrangements to ensure that the gallium produced, used, and recycled stays within the Rare Metals supply chain.

On December 21, 2023, China adopted revisions to the Catalogue of Technologies Prohibited or Restricted from Exporting. This update included the addition of rare earth magnet technology. These export restrictions are anticipated to create incremental barriers for new companies attempting to enter the rare earth magnet industry outside of China.

On June 29, 2024, China announced national level regulation aimed at further strengthening controls on rare earth supply and distribution. These regulations are planned to take effect on October 1, 2024, and Neo does not expect these regulations to have any notable impacts to its current operations. Neo also expects that certain elements of the regulation such as an improved traceability system will provide further stability; as well as environmental, social, and economic benefits for the rare earth industry.

5. Update on Strategic Initiatives

5.1 C&O NAMCO Relocation, Upgrade and Modernization

Neo has nearly completed the relocation, upgrade and modernization of its environmental emissions catalyst manufacturing facility to a newly built site in the Zibo industrial park, which is equipped with advanced infrastructure, transportation, and wastewater treatment capabilities. The new facility will benefit from an improved manufacturing layout, automation, and environmental management systems.

The new facility continued quality assurance testing on manufactured samples for customers with several products receiving customer approval during the second quarter. Subject to these customer qualifications and approvals, NAMCO is expected to be running at full production levels in the fourth quarter of 2024. Neo's initial budget for the expansion, relocation, upgrade and modernization of the NAMCO production facility was \$75.0 million. With the project nearing completion, the current estimated project spend is approximately \$70.0 million (\$5.0 million below budget). Neo spent \$12.8 million (RMB 92.9 million) on the project during the first half of 2024 and \$46.4 million (RMB 326.7 million before capitalized interest), since commencement of the relocation efforts. The remaining cost to complete of \$23.6 million is expected to be spent in the second half of 2024 and early 2025. In addition, Neo began working down its inventory bank during the second quarter of 2024 which was built up to maintain continuity of supply of its environmental emissions catalyst products to customers during this transition and re-qualification period.

To assist with the funding of the new manufacturing facility, in August 2022, Neo entered into a \$75.0 million credit facility with EDC, advanced in three tranches of \$25.0 million each to fund the anticipated relocation, upgrade and modernization costs. In January 2024, Neo was advanced the second \$25.0 million tranche. As of June 30, 2024, a total of \$50.0 million had been drawn against this facility.

5.2 ZAMR Facility Closure

Neo's rare earth separation business in China operates in a highly regulated, competitive, and commoditized market. This business requires significant scale and security of upstream supply to be successful. Within Neo, the C&O rare earth separation business consumes significant working capital, is most exposed to rare earth price volatility, and drives the highest level of earnings volatility for Neo.

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

In the second quarter of 2024, Neo took a non-cash charge of \$0.6 million for impairment of assets. In the near term, Neo intends to temporarily transfer the affected employees to support the new environment emission catalyst facility (NAMCO) and has entered negotiations with third parties regarding the continued employment of the ZAMR employees involved in rare earth separation.

5.3 Magnet Manufacturing Footprints in Europe

5.3.1 Sintered Magnet Plant in Europe

Neo is investing in a new facility to manufacture and distribute sintered magnets in Europe. These magnets are critical to many future facing applications such as traction motors for electric vehicles and generators for wind turbines. Magnet production, rare earth supply chain security, and diversification of supply are considered critical elements to all OEM's strategies on electric vehicles.

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

On November 9, 2022, Neo announced it had been awarded a grant of up to \$20.0 million (€18.7 million) from the Government of Estonia under Europe's Just Transition Fund ("**JTF**") for eligible project costs of up to \$104.9 million (€98.0 million). The terms of the award are guided by the Government of Estonia's regulations on general conditions for granting and using funds from the operational program of the EU cohesion and internal security policy funds for the period 2021-2027 and related regulations. In addition, the terms of the award include factors such as total eligible costs incurred and employment created. The grant to Neo is the first such award to any critical materials company in the EU under the JTF program. During the second quarter of 2024, Neo received \$1.2 million in JTF funds and has established a quarterly process to recover funding from the JTF program for eligible costs incurred.

Project construction is on budget and on schedule with the building structure complete and all critical equipment ordered. Neo estimates that capital spend for Phase 1 of the new sintered magnet facility in Europe will cost approximately \$75.0 million (prior to the JTF grant). As of June 30, 2024, Neo capitalized \$15.9 million in the first half of 2024 and approximately \$24.9 million since construction commenced; the majority of the remaining estimated cost to complete of \$50.1 million (prior to the JTF grant) is expected to be spent through the remainder of 2024 and into 2025.

In August 2024, Neo announced that it received its first award for the new facility from a European Tier 1 automotive supplier of electric vehicle traction motors. The program is estimated to consume 35% of the facility's capacity at peak production which is expected to take place in fiscal year 2029. Production volumes are anticipated to commence in the second half of 2026 with the program life extending through to 2033. Neo is focused on becoming a leading supplier of sintered magnets for European automotive manufacturers striving to meet the targets set out by European and North American public policy changes. With a proven track record in the automotive industry and global manufacturing capability, the business is positioned to deliver on this strategic objective.

5.4 Sourcing and Rare Earth Supply Strategy

Neo is among the most geographically diverse rare earth value-add companies in the world. Neo has rare earth separation capacity and magnetic powder manufacturing capabilities inside and outside of China. In addition, Neo maintains a global network of recycled scrap metal suppliers supporting its Rare Metals product portfolio. Neo is committed to maintaining sourcing strategies tailored to its business units and end market which meets its global customers' growing demands for geographically diverse sources.

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

Other previously announced notable projects still in the exploration and development stage include:

- Neo North Star Resources Inc. ("NNSR") - A special-purpose entity jointly owned by Neo (44%) and three other third-party investors established to fund the purchase of the License and the exploration of the Sarfartoq Carbonatite Complex in southwest Greenland.
- Australian Rare Earths Limited - On October 14, 2022, Neo entered into a non-binding memorandum of understanding with Australian Rare Earths Ltd. (AR3.AX) ("AR3") that provides for the parties to enter into a joint development agreement in AR3's Koppamurra rare earth project in Australia.
- Hastings Technology Metals - On June 12, 2023, Neo and Hastings Technology Metals signed a non-binding Heads of Agreement for rare earth concentrate offtake and downstream collaboration on Hastings Stage 1 of the Yangibana Rare Earths Project.

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

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

5.5 Impact of Rare Earth Prices on Margins and Mitigating Actions

Both Magnequench and C&O have made strategic efforts to reduce the quarterly fluctuations in reported results related to rare earth price movements. These include tactical actions such as encouraging more contracts to have pass-through provisions, matching more contract durations to overall inventory turns and increasing overall inventory turns. These efforts also include changes such as the recent action taken to shut down C&O's ZAMR light rare earth separation facility in Zibo, China. Neo has long strategically positioned itself as a value-add producer that drives margins from converting the input commodity and creating a higher value finished product. Neo is not a mining company and is not exposed to fixed cost environments for the majority of its input costs. Rather, the largest of Neo's input costs, the commodity itself, tends to fluctuate in relationship with finished goods market prices.

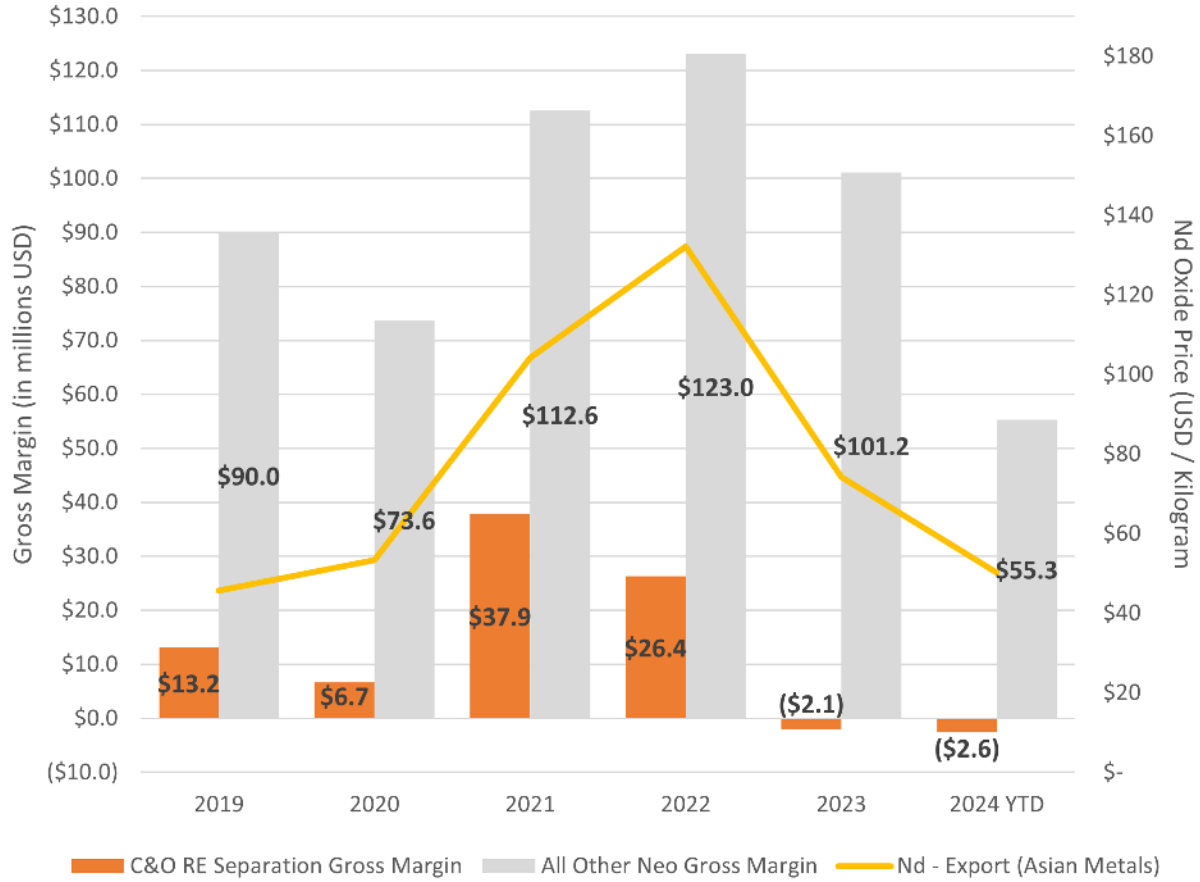
Rare earth prices, particularly the magnetic elements, have been volatile in recent years. This has resulted in higher margins due to favourable lead-lag when prices rise (due to processing and selling of lower cost inventory purchased months earlier), and lower margins due to unfavourable lead-lag when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

For Magnequench, the largest two input costs in production are the commodity costs of Nd Oxide and Pr Oxide. With these inputs tied to market indexes, Magnequench contractually passes through any changes in the commodity costs to its end customers. Over 80% of Magnequench's volumes contain pass-through provisions, with the vast majority of contracts updating prices either monthly or quarterly. Thus, over the long term, Magnequench's exposure to changes in commodity prices is low and Magnequench focuses on earning a margin for its value-add conversion activities. However, in short-term periods of high rare earth pricing volatility, there may be impacts from changes in commodity prices on Magnequench's results. This is related to the duration of inventory turnover relative to the timing of the change in these pass-through commodity prices. Accordingly, while quarterly margins will vary with rare earth prices, Magnequench's long-term margins are tied more closely to the value-add nature of Magnequench's activities.

For the C&O rare earth separation business, the largest input cost is rare earth carbonate. The rare earth carbonate contains many different rare earth elements in specified compositions (per feed source). Although the purchase cost of the rare earth carbonate is not a specified formula, the purchase cost is highly correlated to the market index price of the key rare earth magnetic elements. C&O's primary strategy is to convert these rare earth raw materials into highly engineered value-added products including proprietary formulations and specialty purity products. These margins are readily apparent when C&O purchases its raw materials. However, similar to Magnequench, in short-term periods of high rare earth pricing volatility, there may be impacts from changes in commodity prices that impact reported results. This is related to the duration of inventory turnover relative to selling the majority of the compounds at current spot market index prices.

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

C&O Rare Earth Separation Gross Margin (in millions USD)



6. Consolidated Results of Operations

Comparison of the three and six months ended June 30, 2024 to the three and six months ended June 30, 2023

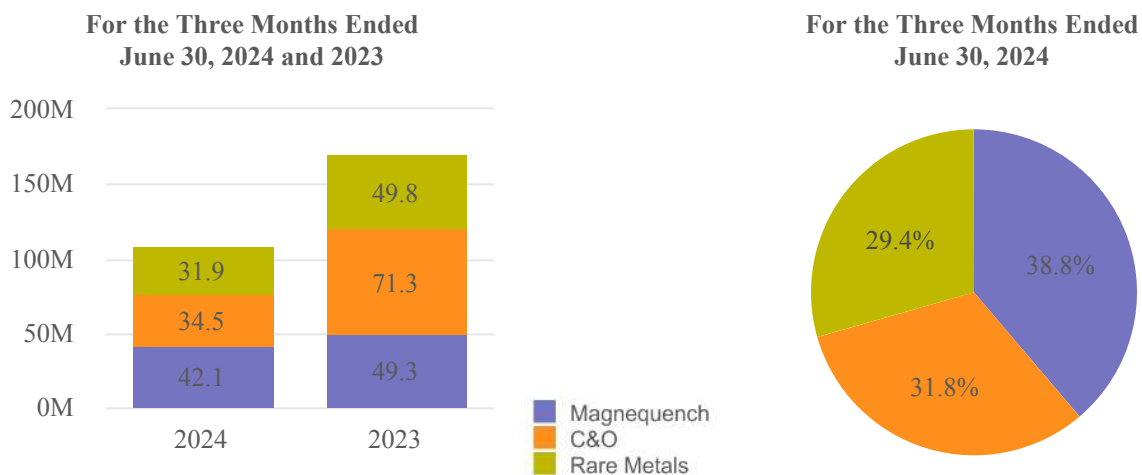
(\$000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue	107,549	170,430	229,644	305,960
Cost of sales				
Cost excluding depreciation and amortization	78,250	132,589	172,998	249,210
Depreciation and amortization	2,004	2,368	3,934	4,536
Gross profit	27,295	35,473	52,712	52,214
Expenses				
Selling, general and administrative	14,605	16,111	29,247	30,982
Share-based compensation	1,476	(82)	1,380	768
Depreciation and amortization	1,876	1,814	3,604	3,580
Research and development	3,307	3,955	6,502	7,206
Impairment of assets	207	—	207	—
	21,471	21,798	40,940	42,536
Operating income	5,824	13,675	11,772	9,678
Other (expense) income	(86)	(171)	3,593	(649)
Finance costs, net	(1,572)	(4,085)	(2,912)	(8,097)
Foreign exchange loss	(544)	(662)	(1,266)	(1,242)
Income (loss) from operations before income taxes and equity income of associates	3,622	8,757	11,187	(310)
Income tax expense	(3,042)	(5,988)	(7,383)	(7,598)
Income (loss) from operations before equity income (loss) of associates	580	2,769	3,804	(7,908)
Equity income (loss) of associates (net of income tax)	303	(2,440)	(2,072)	(2,463)
Net income (loss)	\$ 883	\$ 329	\$ 1,732	\$ (10,371)
Attributable to:				
Equity holders of Neo Performance Materials Inc.	859	\$ 310	1,732	\$ (10,144)
Non-controlling interest	24	19	—	(227)
	\$ 883	\$ 329	\$ 1,732	\$ (10,371)
Earnings (loss) per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic	\$ 0.02	\$ 0.01	\$ 0.04	\$ (0.22)
Diluted	\$ 0.02	\$ 0.01	\$ 0.04	\$ (0.22)

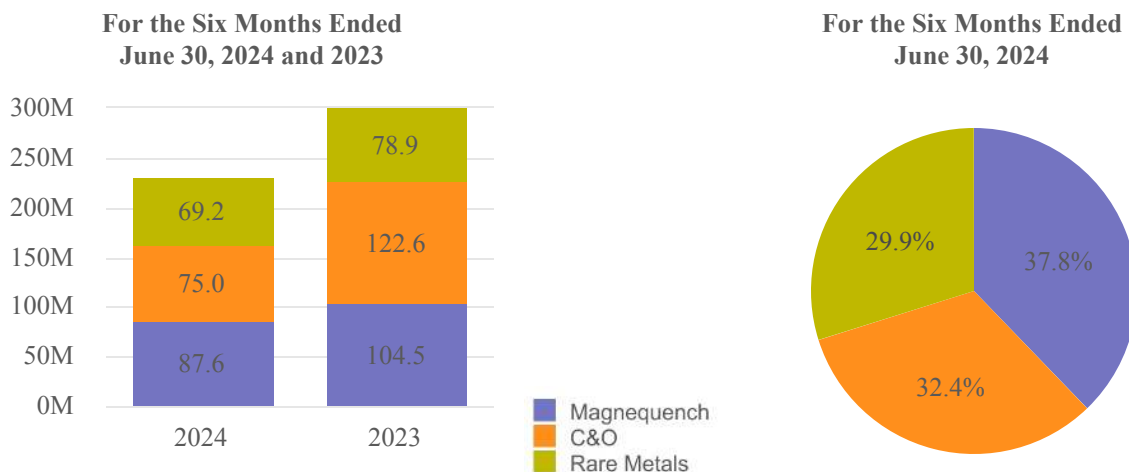
Revenue

Neo's consolidated revenue for the three and six months ended June 30, 2024 was \$107.5 million and \$229.6 million, respectively, compared to \$170.4 million and \$306.0 million for the three and six months ended June 30, 2023, respectively; a decrease of \$62.9 million or 36.9% and a decrease of \$76.3 million or 24.9%, respectively.

(\$000s)	Three Months Ended June 30,				Six Months Ended June 30,			
	2024	2023	Change	%	2024	2023	Change	%
Magnequench	\$ 42,096	\$ 49,329	\$ (7,233)	(14.7%)	\$ 87,576	\$ 104,494	\$ (16,918)	(16.2%)
C&O	34,478	71,276	(36,798)	(51.6%)	74,991	122,565	(47,574)	(38.8%)
Rare Metals	31,909	49,825	(17,916)	(36.0%)	69,187	78,901	(9,714)	(12.3%)
Eliminations	(934)	—	(934)	(100.0%)	(2,110)	—	(2,110)	(100.0%)
Consolidated Revenue	\$ 107,549	\$ 170,430	\$ (62,881)	(36.9%)	\$ 229,644	\$ 305,960	\$ (76,316)	(24.9%)

Revenue by segment before inter-segment eliminations ⁽¹⁾





Notes:

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

Inter-segment revenue for the three and six months ended June 30, 2024 was \$0.9 million and \$2.1 million, respectively, compared to nil for the three and six months ended June 30, 2023. These have been eliminated on consolidation from C&O segment revenue as C&O sold product to Magnequench in the respective periods. The products sold to Magnequench are potential marketable third-party sales and are generally sold at fair market value.

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

Cost of sales

Consolidated cost of sales, excluding depreciation and amortization, for the three months ended June 30, 2024 was \$78.3 million or 72.8% of revenue, compared to \$132.6 million or 77.8% of revenue for three months ended June 30, 2023. For the six months ended June 30, 2024, consolidated cost of sales, excluding depreciation and amortization was \$173.0 million or 75.3% of revenue, compared to \$249.2 million or 81.5% of revenue for the six months ended June 30, 2023. Cost of sales, excluding depreciation and amortization, as a percentage of revenue in the three and six months ended June 30, 2024 decreased mainly due to decreased rare earth commodity prices and product mix within the business segments.

Consolidated depreciation and amortization in cost of sales were \$2.0 million and \$3.9 million for the three and six months ended June 30, 2024, compared to \$2.4 million and \$4.5 million for the three and six months ended June 30, 2023. Consolidated depreciation and amortization in cost of sales for the three and six months ended June 30, 2024 decreased due to lower carrying values of property, plant and equipment as some assets were fully depreciated, specifically the property, plant and equipment in Neo's light rare earth separation facility in China (ZAMR), which were subjected to accelerated amortization in 2023. This decrease was partly offset by the addition of SGTec's property, plant and equipment through the acquisition in April 2023.

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

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

Neo's SG&A expense consists primarily of personnel costs, but also include freight, legal, accounting and other professional fees, and information technology costs. For the three and six months ended June 30, 2024, SG&A expense was \$14.6 million and \$29.2 million, respectively, compared to \$16.1 million and \$31.0 million in the corresponding periods of the prior year. Various cost savings initiatives implemented at Neo have more than offset the additional SG&A expense contributed by the acquisition of SGTec.

Share-based compensation

For the three and six months ended June 30, 2024, share-based compensation expense was \$1.5 million and \$1.4 million, respectively, compared to a recovery of \$0.1 million and expense of \$0.8 million for the three and six months ended June 30, 2023.

Depreciation and amortization

Depreciation and amortization unrelated to production for the three and six months ended June 30, 2024 was \$1.9 million and \$3.6 million, respectively, compared to \$1.8 million and \$3.6 million, respectively, for the three and six months ended June 30, 2023.

R&D

For the three and six months ended June 30, 2024, R&D expense was \$3.3 million and \$6.5 million, respectively, compared to \$4.0 million and \$7.2 million, respectively, in the corresponding periods in 2023. Neo continues to prioritize making strategic and appropriate investments in R&D to develop new applications for its products and to strategically position itself to meet customers' needs for technical solutions. Certain R&D costs are project-based and may fluctuate in any given period.

Other income (expense)

Neo reported other expense of \$0.1 million and other income of \$3.6 million, respectively, for the three and six months ended June 30, 2024, compared to other expense of \$0.2 million and \$0.6 million for the three and six months ended June 30, 2023. Included in other income (expense) for the six months ended June 30, 2024 was the reversal of a special reserve to cover for potential liabilities related to employee safety incidents or workplace accidents at the ZAMR facility in China. This reserve was set up since inception of the light rare earth separation business and has been released as Neo has shut down the light rare earth separation operations. In addition, other income (expense) includes charges for estimated damage claims related to legal proceedings and estimated costs for the disposal of existing naturally occurring radioactive materials ("**NORM**") as well as NORM generated during the quarter.

Finance cost, net

Finance cost, net, for the three and six months ended June 30, 2024 was of \$1.6 million and \$2.9 million, respectively, compared to \$4.1 million and \$8.1 million, respectively, for the three and six months ended June 30, 2023. Neo's finance costs, net, in both periods were primarily related to the changes in the fair values of equity securities, the derivative liabilities of put options issued to the non-controlling interests of consolidated subsidiary, Buss & Buss Spezialmetalle GmbH ("**Buss & Buss**") and SGTec, as well as the change in the fair value of the contingent consideration to be paid to the selling shareholders in accordance with their seller percentage in the event that certain performance criteria are met. The equity securities, the derivative liabilities and the contingent consideration are re-measured at each reporting period with the changes in fair value recorded to finance cost, net.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Change in fair value of equity securities	\$ 60	\$ (139)	\$ 159	\$ 218
Change in fair value of derivative liabilities	1,762	5,196	3,198	8,616
Accretion expense on lease liabilities	77	67	143	109
Interest earned on bank deposits net of interest paid on bank advances	(342)	(1,132)	(645)	(1,121)
Interest expense on Estonia debt facility	3	67	6	140
Interest expense on China debt facility	—	7	—	45
Interest expense on German debt facility	—	19	29	90
Interest expense on Barclays debt facility	12	—	22	—
Total	\$ 1,572	\$ 4,085	\$ 2,912	\$ 8,097

For the three and six months ended June 30, 2024, \$1.2 million and \$2.3 million in interest expense relating to the EDC facility was capitalized into Property, Plant and Equipment in accordance with IAS 23 *Borrowing Costs*. For the three and six months ended June 30, 2023, \$1.4 million in EDC facility interest expenses was capitalized into Property, Plant and Equipment.

Income tax expense

For the three and six months ended June 30, 2024, Neo had an income tax expense of \$3.0 million and \$7.4 million, respectively. For the three months ended June 30, 2024, Neo's income tax expense was unfavourably impacted by \$2.1 million due to losses and temporary differences for which there are no recognized tax benefits. For the six months ended June 30, 2024, Neo's income tax expense was unfavourably impacted by \$1.2 million due to foreign exchange fluctuations on certain non-monetary assets and \$3.6 million due to losses and temporary differences for which there are no recognized tax benefits.

For the three and six months ended June 30, 2023, Neo had an income tax expense of \$6.0 million and \$7.6 million, respectively. For the three months ended June 30, 2023, Neo's income tax expense was unfavourably impacted by \$3.0 million due to losses and temporary differences for which there are no recognized tax benefits and \$1.4 million due to non-deductible finance costs related to the re-measurement of the Buss & Buss derivative liability. For the six months ended June 30, 2023, Neo's income tax expense was unfavourably impacted by \$6.1 million due to losses and temporary differences for which there are no recognized tax benefits and \$2.3 million due to non-deductible finance costs related to the re-measurement of the Buss & Buss derivative liability.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of \$36.0 million for the six months ended June 30, 2024, compared to \$11.8 million (excluding the acquisition of SGTec's property, plant and equipment of \$12.0 million from business combination) for the six months ended June 30, 2023.

The relocation, upgrade and modernization of Neo's environmental emissions catalyst production facility, NAMCO, is nearly complete. A total of \$46.4 million (RMB 326.7 million) has been spent since inception of the project including approximately \$4.4 million to secure a 50 year land lease at the new site. Of this, \$12.8 million (RMB

92.9 million) was spent during the six months ended June 30, 2024. Additionally, \$2.3 million in interest expense relating to the EDC facility was capitalized to property, plant and equipment for the six months ended June 30, 2024.

For the six months ended June 30, 2024, Neo has also capitalized approximately \$15.9 million relating to expenditures that have been incurred for the construction of the new sintered magnet manufacturing facility in Europe.

The remainder of capital expenditures of \$5.0 million were spent on a combination of maintenance capital to assist with the continuing development and operations of Neo, growth capital to assist in adding new capacity or new products, and strategic capital tied to longer-term planning initiatives.

Legal contingencies

Neo operates in a high technology and advanced engineering product environment in which many patents have been issued over time. The subsidiaries of Neo are currently, and may in the future, become involved in legal proceedings alleging patent infringement. At present, Neo is defending against patent infringement legal proceedings filed in Germany, the UK, the US, 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 labour-intensive and highly technical process); the difficulty of assessing novel claims or legal arguments, and; the parties not having engaged in any meaningful settlement discussions. Management is required to apply judgment with respect to estimating the potential impact of the ongoing patent litigation on Neo. Potential impacts to Neo include, but are not limited to the following: the possibility of an injunction prohibiting Neo from manufacturing, distributing, marketing or selling products that are found to infringe on an unexpired patent; potential damages, attorney's fees and costs that Neo could be ordered to pay if it is found to have infringed on a patent, and; damage to Neo's reputation with key customers, or prospective customers, from a finding of patent infringement.

Of the various lawsuits initiated and underway, the German Courts have ruled that certain of Neo Chemicals & Oxides (Europe) Ltd.'s ("**Neo C&O (Europe)**") products infringed six expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1 ("**846**"), European patent #0605274 ("**274**"), European patent #0955267 B1 ("**267**"), European patent #1527018 ("**018**") and European patent #1435338 B1 ("**338**"). Neo C&O (Europe) filed an appeal in the 018 infringement action, which stayed pending a final judgment in a separate case concerning the validity of 018, which is pending before the German Federal Supreme Court. Neo C&O (Europe) filed an appeal in the 338 infringement action but the Higher Regional Court of Karlsruhe affirmed the judgment of infringement. Neo C&O (Europe) subsequently filed for leave to appeal the 338 judgment of infringement to the German Federal Supreme Court and that application was denied. The judgments of infringement with respect to 984, 274, 846 and 267 are final. Neo C&O (Europe) was ordered to provide information related to the calculation of damages, but as of yet, except with respect to 267, there has been no determination of damages in any of the German infringement lawsuits. In May 2024, Neo C&O (Europe) was ordered to pay approximately \$0.7 million in damages in respect of the 267 action and has done so, while further appealing the judgment.

Neo C&O (Europe) challenged the validity of patents 984, 846, 274, 267 and 338 before the German Federal Patent Court. Following litigation before the German Federal Patent Court, and subsequent appeals to the German Supreme Court, patents 984, 846, 274, 267 and 338 were upheld subject to restrictions in scope. Neo C&O (Europe) also filed actions in the German Federal Patent Court challenging the validity of 018, European patent #2523907 ("**907**") and European patent #2007682 ("**682**"). The German Federal Patent Court upheld the validity of both 018 and 907 in restricted form. Both Rhodia and Neo have appealed these rulings. The German Federal Supreme Court has set the 018 matter for a hearing on October 10, 2024, and the 907 matter for a hearing on December 3, 2024. On

February 6, 2024, the German Federal Patent Court revoked 682 in Germany. Rhodia has filed its appeal to this ruling in June 2024.

In addition to the above-referenced cases, Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed 682 and European Patent #3009403 B1 ("**403**"). The Düsseldorf Regional Court stayed Rhodia's case alleging infringement of 682, pending the outcome of Neo's action before the German Federal Patent Court to invalidate 682. In September of 2021 the Court of Appeal remanded the case back to the Düsseldorf Regional Court to reconsider its order staying the 682 infringement proceeding. The Düsseldorf Regional Court has not yet ruled on Neo's motion for stay following the remand. On February 22, 2024, a hearing was held before the Düsseldorf Regional Court for the 403 infringement action. On March 14, 2024, the Düsseldorf Regional Court ruled that Neo infringed on 403. Neo subsequently filed an appeal to the Düsseldorf Regional Court on April 10, 2024.

In November of 2020, Rhodia Operations filed a lawsuit in Estonia against NPM Silmet OÜ ("**Silmet**") alleging infringement of 403. This case has not yet been set for trial. Neo C&O (Europe) has filed an action before the European Patent Office seeking to revoke 403.

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

The following infringement proceedings are ongoing. These proceedings are at various stages 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	
European Patent EP 3009403	Germany	Not specified
European Patent EP 3009403	Estonia	\$0.1 million
European EP 1435338 B1 ⁽¹⁾	Germany	\$40.7 million (€38.0 million)
European patent 0955267 ⁽²⁾	Germany	\$0.7 million (€0.7 million)
European patent 1527018	Germany	\$0.7 million
European patent 2007682	Germany	Not specified
US Patent 10,988,395	United States	} Not specified
US Patent 11,111,161	United States	

Notes:

- (1) During the second quarter of 2023, the Claimant filed new pleadings, which allege a different sum of damages than the amount shown in the table. However, the Claimant redacted the relevant portions of the pleading that specify the claimed amount of damages, and these portions of the pleading are subject to confidentiality restrictions which prevent public disclosure.
- (2) During the second quarter of 2024, Neo C&O Europe was ordered to pay \$0.7 million in damages and has paid such amount in accordance with the court order and has filed a further appeal.

Management has made an assessment, based on its interpretation of the claims as to the quantum of the appropriate provision for certain claims, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

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

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

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

7. Non-IFRS Financial Measures

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

Non-IFRS financial measures

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

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

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

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

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

Non-IFRS ratios

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

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

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

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

(\$000s, except volume)	Three Months Ended June 30,		Change	%	Six Months Ended June 30,		Change	%
	2024	2023			2024	2023		
Net income (loss)	\$ 883	\$ 329	\$ 554	168.4%	\$1,732	\$(10,371)	\$ 12,103	116.7%
Add back (deduct):								
Finance cost, net	1,572	4,085	(2,513)		2,912	8,097	(5,185)	
Income tax expense	3,042	5,988	(2,946)		7,383	7,598	(215)	
Depreciation and amortization included in cost of sales	2,004	2,368	(364)		3,934	4,536	(602)	
Depreciation and amortization included in operating expenses	1,876	1,814	62		3,604	3,580	24	
EBITDA	9,377	14,584	(5,207)	(35.7%)	19,565	13,440	6,125	45.6%
Adjustments to EBITDA:								
Other expense (income) ⁽¹⁾	86	171	(85)		(3,593)	649	(4,242)	
Foreign exchange loss ⁽²⁾	544	662	(118)		1,266	1,242	24	
Equity (income) loss of associates	(303)	2,440	(2,743)		2,072	2,463	(391)	
Share-based compensation ⁽³⁾	1,476	(82)	1,558		1,380	768	612	
Fair value adjustments to inventory acquired	—	572	(572)		—	572	(572)	
Project start-up & transition costs ⁽⁴⁾	2,005	—	2,005		3,255	—	3,255	
Impairment of assets ⁽⁵⁾	207	—	207		207	—	207	
Transaction costs on business combination	—	1,201	(1,201)		—	1,201	(1,201)	

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

(\$000s, except volume)	Three Months Ended June 30,		Change	%	Six Months Ended June 30,		Change	%
	2024	2023			2024	2023		
Adjusted EBITDA⁽¹⁾	\$13,392	\$19,548	\$ (6,156)	(31.5%)	\$24,152	\$20,335	\$ 3,817	18.8%
<i>Adjusted EBITDA Margins⁽¹¹⁾</i>	12.5%	11.5%			10.5%	6.6%		
Less:								
Capital expenditures ⁽⁶⁾ ..	\$18,571	\$ 6,820	\$ 11,751	172.3%	\$36,048	\$11,836	\$ 24,212	204.6%
Free Cash Flow ..	\$(5,179)	\$12,728	\$(17,907)	(140.7%)	\$(11,896)	\$8,499	\$(20,395)	(240.0%)
<i>Free Cash Flow Conversion⁽⁷⁾</i>	(38.7%)	65.1%			(49.3%)	41.8%		
Revenue	\$107,549	\$170,430	\$(62,881)	(36.9%)	\$229,644	\$305,960	\$(76,316)	(24.9%)
Sales volume (tonnes)	3,138	3,307	(169)	(5.1%)	6,220	6,241	(21)	(0.3%)

Notes:

- (1) Represents other expense (income) resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. In addition, other income for the six months ended June 30, 2024 includes the reversal of a special reserve to cover for potential liabilities related to employee safety incidents or workplace accidents at the ZAMR facility. This reserve was set up since inception of the light rare earth separation business and has been released as Neo has shut down this business. These items are not indicative of Neo's ongoing activities.
- (2) Represents unrealized and realized foreign exchange losses that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (3) Represents share-based compensation expense in respect of the long-term incentive plans (the "LTIP") which was adopted on May 9, 2018 as well as the Omnibus long-term incentive plan (the "Omnibus LTIP"), which was originally approved by shareholders on June 29, 2021 and amended and approved by shareholders on June 19, 2024. No further grants were made under the LTIP once the Omnibus LTIP was adopted. There are no RSUs and PSUs outstanding under the LTIP and no further grants will be made under the LTIP.
- (4) Represents start-up costs (primarily pre-operational staffing costs) at Neo's new European sintered magnet facility, as well as transition cost during qualification and start-up of the NAMCO facility and winding down of the ZAMR facility. Neo has removed these charges to provide comparability with historic periods.
- (5) Represents an impairment charge of \$0.6 million resulting from the shut down of Neo's light rare earth separation business in ZAMR, and a reversal of an asset impairment of \$0.4 million previously recorded in Neo's Rare Metals hafnium business.
- (6) Includes cash and non-cash capital expenditures of \$16.3 million and \$32.9 million, respectively, and right-of-use assets of \$2.2 million and \$3.1 million, respectively, for the three and six months ended June 30, 2024. For the three and six months ended June 30, 2023, the amount was comprised of cash and non-cash capital expenditures of \$6.1 million and \$9.6 million, respectively, and right-of-use assets of \$0.7 million and \$2.2 million, respectively.
- (7) Calculated as Free Cash Flow divided by Adjusted EBITDA⁽¹⁾.

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

(\$000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income (loss)	\$ 883	\$ 329	\$ 1,732	\$ (10,371)
Adjustments to net income (loss):				
Foreign exchange loss ⁽¹⁾	544	662	1,266	1,242
Impairment of assets ⁽²⁾	207	—	207	—
Share-based compensation ⁽³⁾	1,476	(82)	1,380	768
Project start-up & transition cost ⁽⁴⁾	2,005	—	3,255	—
Other items included in other expense (income) ⁽⁵⁾	158	212	(2,890)	619
Fair value adjustments to inventory acquired	—	572	—	572
Transaction costs on business combination	—	1,201	—	1,201
Tax impact of the above items	(22)	(429)	694	(547)
Adjusted net income (loss) ⁽ⁱⁱ⁾	\$ 5,251	\$ 2,465	\$ 5,644	\$ (6,516)
Attributable to:				
Equity holders of Neo	\$ 5,227	\$ 2,446	\$ 5,644	\$ (6,289)
Non-controlling interest	\$ 24	\$ 19	\$ —	\$ (227)
Weighted average number of common shares outstanding:				
Basic	41,751,560	45,196,921	41,791,628	45,196,921
Diluted	42,343,082	45,621,275	42,429,648	45,196,921
Adjusted income (loss) per share attributable to equity holders of Neo:				
Basic and diluted	\$ 0.13	\$ 0.05	\$ 0.14	\$ (0.14)
Diluted	\$ 0.12	\$ 0.05	\$ 0.13	\$ (0.14)

Notes:

- (1) Represents unrealized and realized foreign exchange losses that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (2) Represents an impairment charge of \$0.6 million resulting from the shut down of Neo's light rare earth separation business in ZAMR, and a reversal of an asset impairment of \$0.4 million previously recorded in Neo's Rare Metals hafnium business.
- (3) Represents share-based compensation expense in respect of the LTIP which was adopted on May 9, 2018 as well as the Omnibus LTIP, which was originally approved by shareholders on June 29, 2021 and amended and approved by shareholders on June 19, 2024. No further grants were made under the LTIP once the Omnibus LTIP was adopted. There are no RSUs and PSUs outstanding under the LTIP and no further grants will be made under the LTIP.
- (4) Represents start-up costs (primarily pre-operational staffing costs) at Neo's new European sintered magnet facility, as well as transition cost during qualification and start-up of the NAMCO facility and winding down of the ZAMR facility. Neo has removed these charges to provide comparability with historic periods.
- (5) Represents other expense (income) resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. In addition, other income for the six months ended June 30, 2023 includes the reversal of a special reserve to cover for potential liabilities related to employee safety incidents or workplace accidents at the ZAMR facility. This reserve was set up since inception of the light rare earth separation business and has been released as Neo has shut down this business. These items 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 June 30,				Six Months Ended June 30,			
	2024	2023	Change	%	2024	2023	Change	%
Operating income	\$2,257	\$ 1,077	\$ 1,180	109.6%	\$5,641	\$2,032	\$ 3,609	177.6%
Net income (loss)	\$1,612	\$(1,027)	\$ 2,639	257.0%	\$1,299	\$ 16	\$ 1,283	8,018.8%
Add back (deduct):								
Finance (income) cost, net	(144)	(35)	(109)		58	(130)	188	
Income tax expense	825	45	780		1,404	166	1,238	
Depreciation and amortization included in cost of sales	935	1,010	(75)		1,841	1,838	3	
Depreciation and amortization included in operating expenses	1,324	1,419	(95)		2,648	2,749	(101)	
EBITDA	4,552	1,412	3,140	222.4%	7,250	4,639	2,611	56.3%
Other (income) expense ⁽¹⁾	(24)	(23)	(1)		(516)	127	(643)	
Foreign exchange loss (gain) ⁽²⁾	443	(323)	766		1,743	(611)	2,354	
Equity (income) loss of associates	(457)	2,440	(2,897)		1,651	2,463	(812)	
Share-based compensation ⁽³⁾	221	(5)	226		239	139	100	
Project start-up & transition costs ⁽⁴⁾	1,433	—	1,433		1,913	—	1,913	
Fair value adjustments to inventory acquired	—	572	(572)		—	572	(572)	
Transaction costs on business combination	—	1,201	(1,201)		—	1,201	(1,201)	
Adjusted EBITDA ⁽¹⁾	\$6,168	\$ 5,274	\$ 894	17.0%	\$12,280	\$8,530	\$ 3,750	44.0%
<i>Adjusted EBITDA Margins ⁽¹⁾</i>	14.7%	10.7%			14.0%	8.2%		
Revenue	\$42,096	\$49,329	\$ (7,233)	(14.7%)	\$87,576	\$104,494	\$(16,918)	(16.2%)
Sales volume (tonnes)	1,190	1,037	153	14.8%	2,403	2,024	379	18.7%

Notes:

- (1) Represents other income resulting from non-operational related activities. These items 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 LTIP which was adopted on May 9, 2018 as well as the Omnibus LTIP, which was originally approved by shareholders on June 29, 2021 and amended and approved by shareholders on June 19, 2024. No further grants were made under the LTIP once the Omnibus LTIP was adopted. There are no RSUs and PSUs outstanding under the LTIP and no further grants will be made under the LTIP.
- (4) Represents start-up costs (primarily pre-operational staffing costs) at Neo's new European sintered magnet facility.

8.2 Chemicals & Oxides

(\$000s, except volume)	Three Months Ended June 30,				Six Months Ended June 30,			
	2024	2023	Change	%	2024	2023	Change	%
Operating income (loss)	\$ 198	\$1,524	\$ (1,326)	(87.0%)	\$ (1,906)	\$ (4,602)	\$ 2,696	58.6%
Net income (loss)	\$ 415	\$1,055	\$ (640)	(60.7%)	\$1,390	\$ (6,190)	\$ 7,580	122.5%
Add back (deduct):								
Finance income, net	(319)	(790)	471		(583)	(159)	(424)	
Income tax expense	22	951	(929)		1,155	633	522	
Depreciation and amortization included in cost of sales	715	1,144	(429)		1,404	2,270	(866)	
Depreciation and amortization included in operating expenses	315	258	57		558	541	17	
EBITDA	1,148	2,618	(1,470)	(56.1%)	3,924	(2,905)	6,829	235.1%
Other expense (income) ⁽¹⁾	195	172	23		(2,981)	530	(3,511)	
Foreign exchange (gain) loss ⁽²⁾	(267)	136	(403)		(1,306)	584	(1,890)	
Equity loss of associates	154	—	154		421	—	421	
Share-based compensation ⁽³⁾	232	(13)	245		254	142	112	
Project start-up & transition costs ⁽⁴⁾	572	—	572		1,342	—	1,342	
Impairment of assets ⁽⁵⁾	617	—	617		617	—	617	
Adjusted EBITDA⁽¹⁾	\$2,651	\$2,913	\$ (262)	(9.0%)	\$2,271	\$ (1,649)	\$ 3,920	237.7%
<i>Adjusted EBITDA Margins^(1f)</i>	7.7%	4.1%			3.0%	(1.3%)		
Revenue	\$34,478	\$71,276	\$(36,798)	(51.6%)	\$74,991	\$122,565	\$(47,574)	(38.8%)
Sales volume (tonnes)	1,880	2,188	(308)	(14.1%)	3,682	4,037	(355)	(8.8%)

Notes:

- (1) Represents other (income) expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. In addition, other income for the six months ended June 30, 2023 includes the reversal of a special reserve to cover for potential liabilities related to employee safety incidents or workplace accidents at the ZAMR facility. This reserve was set up since inception of the light rare earth separation business and has been released as Neo has shut down this business. These items 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 LTIP which was adopted on May 9, 2018 as well as the Omnibus LTIP, which was originally approved by shareholders on June 29, 2021 and amended and approved by shareholders on June 19, 2024. No further grants were made under the LTIP once the Omnibus LTIP was adopted. There are no RSUs and PSUs outstanding under the LTIP and no further grants will be made under the LTIP.
- (4) Represents transition cost during qualification and start-up of the NAMCO facility and winding down of the ZAMR facility. Neo has removed these charges to provide comparability with historic periods.
- (5) In April 2024, Neo shut down its light rare earth separation business in ZAMR, resulting in \$0.6 million of impairment of assets.

8.3 Rare Metals

(\$000s, except volume)	Three Months Ended June 30,		Change	%	Six Months Ended June 30,		Change	%
	2024	2023			2024	2023		
Operating income	\$8,573	\$16,686	\$ (8,113)	(48.6%)	\$17,373	\$22,518	\$ (5,145)	(22.8%)
Net income	\$4,824	\$6,576	\$ (1,752)	(26.6%)	\$10,494	\$6,132	\$ 4,362	71.1%
Add back (deduct):								
Finance cost, net	1,793	5,288	(3,495)		3,011	8,851	(5,840)	
Income tax expense . . .	2,205	4,978	(2,773)		4,838	6,784	(1,946)	
Depreciation and amortization included in cost of sales	354	214	140		689	428	261	
Depreciation and amortization included in operating expenses	163	53	110		246	121	125	
EBITDA	9,339	17,109	(7,770)	(45.4%)	19,278	22,316	(3,038)	(13.6%)
Other (income) expense ⁽¹⁾	(139)	22	(161)		(150)	(8)	(142)	
Foreign exchange (gain) loss ⁽²⁾	(110)	(178)	68		(820)	758	(1,578)	
Share-based compensation ⁽³⁾	106	(3)	109		126	48	78	
Recovery of assets ⁽⁴⁾	(410)	—	(410)		(410)	—	(410)	
Adjusted EBITDA ⁽¹⁾	\$8,786	\$16,950	\$ (8,164)	(48.2%)	\$18,024	\$23,114	\$ (5,090)	(22.0%)
<i>Adjusted EBITDA Margins ⁽¹⁾</i>	27.5%	34.0%			26.1%	29.3%		
Revenue	\$31,909	\$49,825	\$ (17,916)	(36.0%)	\$69,187	\$78,901	\$ (9,714)	(12.3%)
Sales volume (tonnes)	88	82	6	7.3%	175	180	(5)	(2.8%)

Notes:

- (1) Represents other income resulting from non-operational related activities. These items are not indicative of Neo's ongoing activities.
- (2) Represents unrealized and realized foreign exchange gains that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (3) Represents share-based compensation expense in respect of the LTIP which was adopted on May 9, 2018 as well as the Omnibus LTIP, which was originally approved by shareholders on June 29, 2021 and amended and approved by shareholders on June 19, 2024. No further grants were made under the LTIP once the Omnibus LTIP was adopted. There are no RSUs and PSUs outstanding under the LTIP and no further grants will be made under the LTIP.
- (4) Represents a reversal of an asset impairment previously recorded in Neo's Rare Metals hafnium business.

9. Summary of Consolidated Quarterly Results

(\$000s, except for earnings per share information)	2024			2023			2022	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	\$107,549	\$122,095	\$128,668	\$136,917	\$170,430	\$135,530	\$159,168	\$146,627
Net income (loss) attributable to equity holders of Neo	859	873	(1,367)	3,069	310	(10,454)	(7,291)	(3,719)
Basic EPS	0.02	0.02	(0.03)	0.07	0.01	(0.23)	(0.16)	(0.09)
Diluted EPS	0.02	0.02	(0.03)	0.07	0.01	(0.23)	(0.16)	(0.09)
Operating income (loss) ...	5,824	5,948	(5,470)	6,959	13,675	(3,997)	6,727	2,239
Net income (loss)	883	849	(1,129)	3,109	329	(10,700)	(7,162)	(3,812)
Add back (deduct):								
Finance cost (income), net ...	1,572	1,340	(742)	(648)	4,085	4,012	11,116	1,437
Income tax expense (benefit)	3,042	4,341	(39)	4,124	5,988	1,610	2,022	3,775
Depreciation and amortization included in cost of sales	2,004	1,930	2,416	2,674	2,368	2,168	2,361	2,279
Depreciation and amortization included in operating expenses	1,876	1,728	1,813	1,794	1,814	1,766	1,784	1,781
EBITDA	9,377	10,188	2,319	11,053	14,584	(1,144)	10,121	5,460
Add back:								
Other expense (income) ⁽¹⁾ ...	86	(3,679)	(2,776)	(1,011)	171	478	492	448
Foreign exchange loss (gain) ⁽²⁾	544	722	(4)	190	662	580	(476)	723
Equity (income) loss of associates	(303)	2,375	(780)	1,195	2,440	23	735	(332)
Share and value-based compensation ⁽³⁾	1,476	(96)	1,946	1,024	(82)	850	610	735
Impairment of assets	207	—	1,713	—	—	—	938	—
Fair value adjustments to inventory acquired	—	—	222	423	572	—	—	—
Project start-up & transition costs ⁽⁴⁾	2,005	1,250	457	286	1,201	—	—	—
Adjusted EBITDA⁽¹⁾	\$13,392	\$10,760	\$ 3,097	\$13,160	\$19,548	\$ 787	\$12,420	\$ 7,034
Adjusted EBITDA Margins⁽¹⁾	12.5%	8.8%	2.4%	9.6%	11.5%	0.6%	7.8%	4.8%

Notes:

- (1) Represents other (income) expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. In addition, other income for the three months ended March 31, 2024 includes the reversal of a special reserve to cover for potential liabilities related to employee safety incidents or workplace accidents at the ZAMR facility. This reserve was set up since inception of the light rare earth separation business and has been released as Neo has shut down this business. These items 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 LTIP which was adopted on May 9, 2018 as well as the Omnibus LTIP, which was originally approved by shareholders on June 29, 2021 and amended and approved by shareholders on June 19, 2024. No further grants were made under the LTIP once the Omnibus LTIP was adopted. There are no RSUs and PSUs outstanding under the LTIP and no further grants will be made under the LTIP.
- (4) Represents start-up costs (primarily pre-operational staffing costs) at Neo's new European sintered magnet facility, as well as transition cost during qualification and start-up of the NAMCO facility and winding down of the ZAMR facility. Neo has removed these charges to provide comparability with historic periods.

10. Liquidity and Capital Resources

Six months ended June 30, 2024 compared to six months ended June 30, 2023:

(\$000s)	Six Months Ended June 30,	
	2024	2023
<i>Cash flow:</i>		
Cash provided by operating activities	\$ 26,006	\$ 42,762
Cash used in investing activities	(23,198)	(27,801)
Cash provided by (used in) financing activities	12,568	(33,552)
<i>Financial position - as at</i>		
Cash and cash equivalents	\$ 100,483	\$ 86,895
Restricted cash	53	3,357
Property, plant and equipment	147,927	118,918
Total assets	621,552	627,004
Current portion of long-term debt	4,634	2,230
Long-term debt	44,820	23,101

As at June 30, 2024, Neo had cash and cash equivalents of \$100.5 million plus \$0.1 million in restricted cash balance, compared to \$86.9 million plus \$3.4 million as at December 31, 2023. For the six months ended June 30, 2024, Neo paid \$6.2 million in dividends to its shareholders and made NCIB purchases in the amount of \$2.3 million. Neo has drawn on the second tranche of its EDC credit facility in the amount of \$25.0 million for its NAMCO relocation efforts, and repaid \$1.5 million of term loan facilities at SGTec in the six months ended June 30, 2024. Neo's financial position and ability to generate cash from its operations in the short and long-term remain sound.

The primary cash inflows and outflows contributing to the change from December 31, 2023 were the following:

Inflows

- \$25.3 million from operations before net change in working capital, income taxes paid and net interest received;
- \$13.7 million net change in working capital;
- \$3.3 million released from restricted cash;
- \$25.0 million drawn on the EDC credit facility.

Outflows

- \$6.2 million of dividends paid to shareholders;
- \$2.3 million of shares repurchased under the NCIB;
- \$1.2 million of lease payments;
- \$1.5 million repayment of term loan facilities at SGTec;
- \$26.7 million of other capital spending; and
- \$13.3 million of income taxes paid;

Cash Provided by Operating Activities

Net cash provided by operating activities was \$26.0 million for the six months ended June 30, 2024, compared to \$42.8 million for the six months ended June 30, 2023.

The \$13.7 million net change in working capital for the six months ended June 30, 2024, was primarily attributable to lower inventory driven by declining rare earth prices, as well as release of strategic inventory held to support contracted hafnium volumes in the first half of 2024. This decrease, coupled with a decrease in accounts receivable, was partially offset by a decrease in accounts payable and other accrued charges, and an increase in other assets. The majority of the increase in other assets was related to the prepayment for property, plant and equipment for the ongoing construction of Neo's sintered magnet plant in Europe, as well as prepayment made to secure supply of raw materials.

Cash Used in Investing Activities

For the six months ended June 30, 2024, net cash used in investing activities was \$23.2 million, compared to \$27.8 million for the six months ended June 30, 2023. The cash used in investing activities was primarily related to \$14.5 million (including capitalized interest of \$1.7 million relating to the EDC facility) for the NAMCO relocation, upgrade and modernization, \$10.3 million for the establishment of the sintered magnet manufacturing plant in Europe, as well as additional capital projects performed at the Tianjin and Silmet facilities. This cash used in capital projects was offset in part by a decrease in restricted cash of \$3.3 million, due to the release of the remaining purchase consideration previously held in escrow for the acquisition of SGTec as well as the release of cash previously held as collateral against Neo's letters of credit.

Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities during the six months ended June 30, 2024 was \$12.6 million, compared to \$33.6 million net cash used in financing activities for the six months ended June 30, 2023. For the six months ended June 30, 2024, Neo has drawn on the second tranche of its EDC credit facility in the amount of \$25.0 million for its NAMCO relocation efforts, repaid \$1.5 million of term loan facilities at SGTec, spent \$2.3 million in shares repurchased, distributed \$6.2 million in dividends to Neo's shareholders, and spent \$1.2 million in lease payments. In the six months ended June 30, 2023, Neo repaid \$17.3 million of its bank advances and other short-term debt, repaid \$7.0 million of its Estonia term debt facility, spent \$1.2 million in shares repurchased, distributed \$6.7 million in dividends to its shareholders, and spent \$1.2 million in lease payments.

(\$000s)

Cash and cash equivalents by Country	June 30, 2024	December 31, 2023
China (including Hong Kong)	\$ 39,283	\$ 39,493
Estonia	9,508	4,239
United States	3,323	8,390
Canada	3,439	7,341
Japan	5,480	3,659
United Kingdom	3,710	2,772
Germany	15,707	7,177
Singapore	8,276	3,921
Barbados	3,233	354
Thailand	6,891	8,094
Cayman Islands	206	32
Other	1,427	1,423
Total cash and cash equivalents	\$ 100,483	\$ 86,895

Approximately \$20.6 million of cash on hand held by Neo's foreign operating subsidiaries relates to earnings that are considered indefinitely reinvested in these foreign subsidiaries. Although substantially all of Neo's cash and cash equivalents can be repatriated, a portion may be subject to withholding taxes under current tax laws. While some of Neo's subsidiaries are subject to local governmental restrictions on the flow of capital into and out of their jurisdictions (including in the form of cash dividends, loans or advances), these restrictions have not had a material impact on Neo's ability to meet its cash obligations. Therefore, Neo does not consider this to be a significant risk on its ability to meet ongoing commitments and fund operations.

In addition to cash on hand, the primary sources of liquidity for Neo's domestic and foreign subsidiaries are cash provided by operations and, in the case of the activities in China, Estonia, Germany and the UK, borrowings under certain bank loans. From time to time, the sources of liquidity for Neo's operating subsidiaries may be supplemented by intercompany loans in the form of unsecured promissory notes. Neo's operating subsidiaries' liquidity is generally used to fund their working capital requirements, investments, capital expenditures (including costs related to the relocation, upgrade and modernization of NAMCO facility) and third-party debt service requirements.

11. Contractual Obligations

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

(\$000s)	Payments Due by Period				
	1 year	2 - 3 years	4 - 5 years	Thereafter	Total
Accounts payable and other accrued charges	53,608	—	—	—	53,608
Derivative liabilities ⁽¹⁾	39,242	—	1,324	—	40,566
EDC credit facility ⁽²⁾	4,634	9,285	35,535	—	49,454
Provisions ⁽³⁾	714	26,354	—	—	27,068
Lease obligations ⁽⁴⁾	1,783	1,560	545	2,026	5,914
Other liabilities ⁽⁵⁾	1,605	817	56	263	2,741
Total	\$ 101,586	\$ 38,016	\$ 37,460	\$ 2,289	\$ 179,351

Notes:

- (1) Represents the fair value of the put options on shares of the remaining shareholders of Buss & Buss and SGTec.
- (2) Represents the first and second tranche of the EDC credit facility term loan.
- (3) Represents management's best estimate of: a) the costs to be incurred by Neo for the disposal of the hazardous NORM currently being stored at JAMR facility, and, b) 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, office equipment and machinery.
- (5) Primarily represents the estimated contingent consideration to be paid to the selling shareholders in accordance with their seller percentage in the event that SGTec's average annual adjusted EBITDA during the period April 1, 2023 to March 31, 2026 is greater than 2.0 million GBP.

As at June 30, 2024, Neo had \$100.5 million of cash and cash equivalents and \$0.1 million in restricted cash balance. Neo believes that the remainder of its cash, in addition to cash from operating activities, is available (or sufficient) to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months. Neo considers cash to be "available" to the extent it can be utilized in operating activities, for capital expenditures, for intercompany loans or for repatriation. Neo also maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

12. Normal Course Issuer Bid

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

During the six months ended June 30, 2024, Neo repurchased and cancelled 398,871 shares for \$2.3 million. Up to the termination of the Share Purchase Plan, Neo had fully utilized the allotment under the NCIB for up to 3,585,011 of its issued and outstanding common shares. For the three and six months ended June 30, 2023, Neo repurchased and canceled 191,770 shares for \$1.2 million.

The NCIB terminated on June 18, 2024.

13. Subsequent Event

13.1 Dividends payable to equity holders of Neo

On August 8, 2024, the Board of Directors declared a quarterly dividend of Cdn \$0.10 per common share payable in cash on September 27, 2024, to common shareholders of record at the close of business on September 17, 2024.

13.2 Sale of Quapaw facility

In August 2024, Neo announced the sale of an 80% equity interest in its Quapaw, Oklahoma facility which produces gallium trichloride used in LED lighting, lithium batteries, integrated circuit chips, and capacitors, for sale proceeds equal to \$1.4 million plus cash on closing, subject to normal closing adjustments.

14. Off-Balance Sheet Arrangements

As at June 30, 2024, Neo's only off-balance sheet arrangements are purchase obligations.

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

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

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

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

16. Related Party Transactions and Balances

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

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

16.1 Transactions with associates

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Purchase of goods and services from associates:				
TMT	\$ 1,325	\$ 1,934	\$ 2,771	\$ 3,651
Keli	3,994	6,228	9,767	12,314
GQD	199	596	1,246	3,097
Sales of goods and services to associates:				
TMT	650	2,691	1,827	5,946

16.2 Transactions with joint venture partners

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Sale of goods to Toda	\$ 80	\$ —	\$ 169	\$ 1,349
Purchase of goods from Qian Dong	—	222	—	3,014

16.3 Transactions with other related parties

Neo, through one of its subsidiaries in China, Magnequench Magnetics (Chu Zhou) Co. Ltd. ("**MQCZ**"), has occasionally sold products to Atatsu Co., Ltd. ("**Atatsu**") for resale to third party customers. Atatsu is controlled by members of MQCZ's key management personnel. For the three and six months ended June 30, 2024, sales to Atatsu were \$0.1 million. For the three and six months ended June 30, 2023, sales to Atatsu were nominal and \$0.1 million, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Sale of goods and services to related parties	\$ 756	\$ 3,204	\$ 2,087	\$ 13,858
Purchase of goods and services from related parties ..	5,518	8,980	13,784	22,076

	June 30, 2024	December 31, 2023
Trade balances:		
from related parties	\$ 427	\$ 4,043
due to related parties	(1,382)	(4,336)
Total	\$ (955)	\$ (293)

Directors and Key Management Compensation

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Directors	\$ 199	\$ 167	\$ 365	\$ 334
Key Executive Management	667	1,091	1,887	2,187
Total	\$ 866	\$ 1,258	\$ 2,252	\$ 2,521

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Directors	\$ 268	\$ 272	\$ 49	\$ 236
Key Executive Management	659	(206)	969	485
Total	\$ 927	\$ 66	\$ 1,018	\$ 721

17. Recent Accounting Pronouncements

17.1 Neo adopted the following accounting standards and amendments to accounting standards during the period ended June 30, 2024:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17.2 The following are new accounting pronouncements or amendments that have been issued by the IASB but have not yet been adopted by Neo as at June 30, 2024:

17.2.1 Lack of Exchangeability (Amendments to IAS 21)

In August 2023, the IASB issued Lack of Exchangeability (Amendments to IAS 21 - The Effects of Changes in Foreign Exchange Rates) to provide guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. The amendments are effective for reporting periods beginning on or after January 1, 2025. Early adoption is permitted.

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

17.2.2 IFRS 18, Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18, the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to: the structure of the statement of profit or loss; required disclosures in the financial statements for certain profit or loss performance measures that are reported outside of an entity's financial statements (that is, management-defined performance measures); and enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

IFRS 18 will replace IAS 1 (many of the other existing principles in IAS 1 will be retained), with limited changes. IFRS 18 will not impact the recognition or measurement of items in the financial statements, but it might change what an entity reports as its 'operating profit or loss'.

IFRS 18 will apply for reporting periods beginning on or after January 1, 2027 and also applies to comparative information. Neo will perform an assessment on the impact of this new standard on its financial statements prior to the effective date of the new standard.

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

Disclosure controls and procedures

Neo's management, under the supervision of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures ("DC&P"). Neo maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis. Management has evaluated the effectiveness of Neo's DC&P and has concluded that they were effective as at December 31, 2023.

There have been no changes in Neo's DC&P during the six months ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, Neo's financial reporting.

Internal controls over financial reporting

Neo's internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In designing such controls, management, including the CEO and CFO, recognized that due to inherent limitations, any controls, no matter how well designed and operating effectively, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect all errors and fraud with respect to the financial statement preparation and presentation. Additionally, management is required to use judgment in evaluating controls and procedures. Neo's management, under the supervision of the CEO and CFO, is responsible for establishing and maintaining adequate ICFR. National Instrument 52-109 of the Canadian Securities Administrators requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for Neo and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to Neo's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Management assesses the effectiveness of Neo's ICFR based on the Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Management conducted an evaluation of the effectiveness of ICFR and concluded that it was effective as at December 31, 2023. There have been no changes in Neo's ICFR during the six months ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, Neo's financial reporting.

19. Business Risks and Uncertainties

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

20. Outstanding Shares Data

Class of Equity Security	Numbers Outstanding as at June 30, 2024
Common Shares	41,751,560
Stock Options*	2,076,960
Restricted Share Units & Performance Stock Units	598,840

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

The number of common shares outstanding as at August 8, 2024 is 41,751,560.

21. Additional Information

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

MD&A Endnotes

- I. See Section 7 "*Non-IFRS Measures*", which includes reconciliation of such non-IFRS measures to the most directly comparable IFRS measures.
- II. See Section 7 "*Non-IFRS Measures*", which includes definitions and calculations of such non-IFRS ratios.