



*Performance Materials*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**NEO PERFORMANCE MATERIALS INC.**

**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2018**

## 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. should be read in conjunction with the MD&A and the audited consolidated financial statements for the year ended December 31, 2017 dated March 9, 2018 filed on [www.sedar.com](http://www.sedar.com). Unless otherwise stated, references in this section to "**Neo**", "**our**", "**we**" or "**Group**", refer to Neo Performance Materials Inc. and its consolidated subsidiaries.

The financial results presented in this MD&A are prepared in accordance with International Accounting Standard ("**IAS**") 34, Interim Financial Reporting as adopted by the International Accounting Standards Board ("**IASB**") and in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the IASB. "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Net Income or Loss", "Adjusted OIBDA", "Adjusted OIBDA Margin", "EBITDA", "Adjusted Earnings per Share", "Free Cash Flow", "Free Cash Flow Conversion" and "OIBDA" are not measures recognized under IFRS and do not have any standardized meaning prescribed by IFRS. These measures may differ from those used by, and are not necessarily comparable to similar measures presented by, other companies. There are no directly comparable IFRS measures to any of these measures. These measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. See "*Management's Discussion and Analysis - Non-IFRS Financial Measures*" below.

This discussion contains forward-looking statements and information. The actual results, performance and achievements could differ materially from those implied by these forward-looking statements as a result of various factors, including those discussed in the MD&A dated March 9, 2018 in Neo's 2017 Annual Report under "*Risk Factors*". See "*Forward-Looking Information*".

The discussion and analysis in this MD&A are based upon information available to management as of May 11, 2018. 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, which could affect Neo in the future.

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

The following discussion and analysis contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to future events or future performance of Neo. All statements in this disclosure, other than statements of historical facts, with respect to Neo's objectives and goals, as well as statements with respect to its beliefs, plans, objectives, expectations, anticipations, estimates, and intentions, are forward-looking information. Specific forward-looking statements in this discussion include, but are not limited to: 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; 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 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, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Neo believes the expectations reflected in such forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this discussion and analysis should not be unduly relied upon. For more information on Neo, investors should review Neo's continuous disclosure filings that are available under its profile at [www.sedar.com](http://www.sedar.com).

The forward-looking information is only provided as of the date of this MD&A, May 11, 2018, and is subject to change as a result of new information, future events or other circumstances, as discussed above, in which case the forward-looking information will be updated by Neo as required by law.

## **2. Overview**

Neo has established itself as a global leader in the innovation and manufacturing of rare earth- and rare metal-based functional materials, which are essential inputs to high technology, high growth, future-facing industries. Neo has a global platform that includes 10 manufacturing facilities located in China, the United States, Germany, Canada, Thailand and South Korea as well as two dedicated research and development ("**R&D**") centres in Singapore and the United Kingdom ("**UK**"). Neo is the only non-Chinese company with a license to separate rare earth elements ("**REEs**") in China which provides unique competitive advantages and a degree of vertical integration. Since 1994, Neo has leveraged its rare earth separation expertise to innovate and grow into a leading manufacturer of functional engineered materials for specialty end markets. This includes establishing the #1 global market position in bonded magnets, a top three global market position in auto emission control catalysts, the #1 gallium trichloride ("**GaCl<sub>3</sub>**") producer for light-emitting diodes ("**LEDs**") and growth opportunities into new end markets such as waste water treatment. 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, with over thirty years of manufacturing experience, is the world leader in the production of magnetic powders used in bonded and hot deformed fully dense neodymium-iron-boron ("**NdFeB**") 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 rare earth oxides ("**REOs**") as the primary input. These powders are used in the production of bonded permanent magnets that are components in automotive motors, micro motors, traction motors, sensors and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

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

The C&O segment manufactures and distributes a broad range of light and heavy rare earth functional materials that have become an indispensable part of modern life. Neo's world-class rare earth processing and materials manufacturing capabilities enable Neo to meet increasingly demanding specifications from manufacturers that need custom engineered materials. Applications from these products include auto catalysts, consumer electronics, petroleum refining, hybrid and electric vehicles and wastewater treatment.

### ***Rare Metals***

The Rare Metals segment sources, reclaims, produces, refines and markets high value 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 their use in flat panel displays, solar, steel additives, batteries and electronics applications.

### ***Corporate***

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

### 3. Selected Financial Highlights

(\$000s, except volume)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
<b>Volume (in mt)</b>		
Magnequench .....	1,527	1,659
C&O .....	2,007	2,290
Rare Metals .....	135	93
Corporate / Eliminations .....	(70)	(60)
<b>Consolidated Volumes</b> .....	<b>3,599</b>	<b>3,982</b>
<b>Revenue</b>		
Magnequench .....	55,734	47,444
C&O .....	45,156	43,066
Rare Metals .....	22,771	18,421
Corporate / Eliminations .....	(3,476)	(2,269)
<b>Consolidated Revenue</b> .....	<b>120,185</b>	<b>106,662</b>
<b>Operating Income (Loss)</b>		
Magnequench .....	13,341	11,272
C&O .....	2,117	4,660
Rare Metals .....	2,479	1,203
Corporate / Eliminations .....	(4,432)	(6,255)
<b>Consolidated Operating Income</b> .....	<b>13,505</b>	<b>10,880</b>
<b>Adjusted EBITDA <sup>(1)</sup></b>		
Magnequench .....	15,475	13,445
C&O .....	3,520	8,266
Rare Metals .....	3,796	2,621
Corporate / Eliminations .....	(3,503)	(3,692)
<b>Consolidated Adjusted EBITDA</b> .....	<b>19,288</b>	<b>20,640</b>
<b>Net Income</b> .....	<b>8,852</b>	<b>8,225</b>
Attributable to:		
Equity holders of Neo .....	8,667	8,178
Non-controlling interest .....	185	47
Earnings per share attributable to equity holders of Neo:		
Basic .....	0.22	0.21
Diluted .....	0.21	0.20
<b>Adjusted Net Income</b> .....	<b>10,268</b>	<b>11,170</b>
Attributable to:		
Equity holders of Neo .....	10,083	11,123
Non-controlling interest .....	185	47
Adjusted earnings per share attributable to equity holders of Neo:		
Basic .....	0.25	0.28
Diluted .....	0.25	0.28
Capital Expenditures .....	2,305	1,364
Cash taxes paid .....	2,896	3,064
Dividends paid to shareholders .....	3,013	—
Repurchase of common shares under Normal Course Issuer Bid .....	224	—
	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Cash and cash equivalents .....	94,544	96,805
Debt .....	546	181

#### Notes:

- (1) Neo uses references to Adjusted OIBDA and Adjusted EBITDA interchangeably as the use of adjustments in each measure provides the same calculated outcome of operating performance. See "Non-IFRS Financial Measures" and details of computation of Adjusted OIBDA

***Highlights of the three month period ended March 31, 2018 compared to the three month period ended March 31, 2017***

***Magnequench***

- Volume declined by 8.0% quarter-over-quarter. Magnequench continued to see growth in many of its end market applications, including micro motors for vehicles and traction motors. From time to time, customers make adjustments to their quarterly purchasing patterns and inventory levels which caused higher volumes in first quarter of 2017 and lower volumes in first quarter of 2018. Revenues were up by 17% from prior year largely due to the increased selling prices from higher rare earth input costs (which are subject to pass through mechanics).
- Adjusted OIBDA of \$15.5 million, a 15% improvement from the prior year, was driven by continued strong operating performance, strategic purchases of other non-rare earth raw materials and the impact of selling prices being adjusted on a lagged basis.

***Chemicals & Oxides***

- In the auto-catalyst segment, Neo continued to incur additional premium freight costs in the first quarter of 2018 as the supply chain continues to be re-filled following the implementation of the new wastewater system in one of its manufacturing plants. These premium freight costs are expected to continue, at a steadily reducing rate, into the second quarter of 2018. The impact of the additional premium freight costs plus potentially lost sales is estimated to be between \$3 million to \$4 million in the three month period ended March 31, 2018.
- Higher rare earth prices continued to benefit the rare earth separation business in the first quarter of 2018. This has remained a positive factor since the third and fourth quarter of 2017 as Neo was able to capitalize on higher selling prices for inventory which was on hand.

***Rare Metals***

- Strong improvement in results continued to be realized at the Silmet facility, due to a combination of increased volumes, higher flow-through margins, continued focus on higher margin programs and continued operational improvements.
- Improved performance in the Rare Metals' gallium trichloride business as its customer recovered from a fire that happened in mid-2017. The segment was also affected by its customers making adjustments to their quarterly purchasing patterns and inventory levels resulting in timing differences in realizing sales with its customers.

***Other Cash and Liquidity Highlights for the period ended March 31, 2018***

- Neo continues to have a strong financial position. As at March 31, 2018, Neo had \$94.5 million in cash and \$0.5 million in debt. This compares to \$96.8 million in cash and \$0.2 million in debt at December 31, 2017.
- Neo generated \$1.4 million of cash from operations which was negatively impacted by an increase in working capital associated with timing of raw material inventory purchases and by certain cash costs related to the completion of the Initial Public Offering in December 2017. Neo invested \$2.3 million in capital expenditures in property, plant and equipment and intangibles and paid \$2.9 million in cash taxes in the three month period ended March 31, 2018.
- On March 29, 2018, Neo paid a dividend to its shareholders of \$3.0 million. As part of the Normal Course Issuer Big program, Neo purchased 16,600 shares with an aggregate disbursement of \$0.2 million.

#### 4. Consolidated Results of Operations

*Comparison of the three month period ended March 31, 2018 to the three month period ended March 31, 2017:*

<i>(\$000s)</i>	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>
<b>Revenue</b> .....	\$ 120,185	\$ 106,662
<b>Costs of sales</b>		
Costs excluding depreciation and amortization .....	83,686	74,756
Depreciation and amortization .....	2,510	1,782
<b>Gross profit</b> .....	<b>33,989</b>	<b>30,124</b>
<b>Expenses</b>		
Selling, general and administrative .....	13,146	10,889
Stock-based compensation .....	1,090	3,358
Depreciation and amortization .....	1,882	1,685
Research and development .....	4,366	3,312
	<u>20,484</u>	<u>19,244</u>
<b>Operating income</b> .....	<b>13,505</b>	<b>10,880</b>
Other (expense) income .....	(34)	1,773
Finance costs, net .....	(237)	(65)
Foreign exchange (loss) gain .....	(171)	14
<b>Income from operations before income taxes and equity income of associates</b> .....	<b>13,063</b>	<b>12,602</b>
Income tax expense .....	(3,191)	(4,707)
<b>Income from operations before equity income of associates</b> .....	<b>9,872</b>	<b>7,895</b>
Equity (loss) income of associates (net of income tax) .....	(1,020)	330
<b>Net income</b> .....	<b>\$ 8,852</b>	<b>\$ 8,225</b>
<b>Attributable to:</b>		
Equity holders of Neo .....	\$ 8,667	\$ 8,178
Non-controlling interest .....	185	47
	<u>\$ 8,852</u>	<u>\$ 8,225</u>
<b>Earnings per share data attributable to equity holders of Neo:</b>		
Basic .....	\$ 0.22	\$ 0.21
Diluted .....	\$ 0.21	\$ 0.20

#### **Revenue**

Neo's consolidated revenue for the three month period ended March 31, 2018 was \$120.2 million compared to \$106.7 million in the prior year; an increase of \$13.5 million or 12.7%.

The Magnequench segment revenue increased to \$55.7 million in the three month period ended March 31, 2018 compared to \$47.4 million in the same period of the prior year; an increase of \$8.3 million or 17.5%. The Magnequench segment represented 46.4% of consolidated revenue in the three month period ended March 31, 2018.

The C&O segment revenue increased to \$45.2 million in the three month period ended March 31, 2018 compared to \$43.1 million in the same period of the prior year; an increase of \$2.1 million or 4.9%. The C&O segment represented 37.6% of consolidated revenue in the three month period ended March 31, 2018.

The Rare Metals segment revenue increased to \$22.8 million in the three month period ended March 31, 2018 compared to \$18.4 million in the same period of the prior year; an increase of \$4.4 million or 23.9%. The Rare Metals segment represented 18.9% of consolidated revenue in the three month period ended March 31, 2018.

Inter-segment revenue in the three month period ended March 31, 2018 was \$3.5 million, compared to \$2.3 million in the three month period ended March 31, 2017. These have been eliminated on consolidation from the C&O segment revenue as C&O sold product to Magnequench, in the respective periods. The products sold to Magnequench are potential marketable third party sales and are generally sold at fair market value.

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

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

Consolidated costs of sales, excluding depreciation and amortization was \$83.7 million in the three month period ended March 31, 2018 compared to \$74.8 million in the same period of the prior year; a increase of \$8.9 million or 11.9%. Cost of sales, excluding depreciation and amortization increased as a result of additional revenue of \$13.5 million in addition to the impacts of sales price, product mix, and operational changes in the business segments. Additionally, in the auto-catalyst segment, Neo continued to incur additional premium freight costs in the first quarter of 2018 as the supply chain continues to be re-filled following the implementation of the new wastewater treatment system in one of the manufacturing locations. These premium freight costs are expected to continue, at a steadily reducing rate, into the second quarter of 2018.

Consolidated depreciation and amortization in costs of sales were \$2.5 million for the three month period ended March 31, 2018 compared to \$1.8 million in the same period of the prior year; a decrease of \$0.7 million. The year-over-year reduction in depreciation and amortization was mostly attributable to a lower asset base as a result of some assets being further depreciated and changes in the remaining useful lives.

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

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

Neo's SG&A expense consists primarily of personnel and related costs, including legal, accounting and other professional fees and information technology costs. For the three month period ended March 31, 2018, SG&A expense was \$13.1 million compared to \$10.9 million in the prior period; an increase of \$2.3 million. The change in SG&A expense relates to lower SG&A in the prior year three month period than that for the year 2017 generally. Certain SG&A costs are project based and may be higher of lower in any given period.

### ***Stock-based compensation***

For the three month period ended March 31, 2018, Neo's consolidated stock-based compensation expenses were \$1.1 million, compared to \$3.4 million for the same periods in 2017, a decrease of \$2.3 million.



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

Depreciation and amortization unrelated to production for the three month period ended March 31, 2018 of \$1.9 million, were fairly consistent with \$1.7 million in the three month period ended March 31, 2017.

### ***R&D***

For the three month period ended March 31, 2018, R&D expense was \$4.4 million compared to \$3.3 million in the prior period; an increase of \$1.1 million. Neo continues to prioritize making strategic and appropriate investments in R&D to develop new applications for its products and to strategically position Neo in meeting customers' needs for technical solutions. Certain R&D costs are project based and may be higher or lower in any given period.

### ***Other income (expenses), net***

For the three month period ended March 31, 2018, other expense was nominal compared to \$1.8 million in the prior period. For the three month ended March 31, 2017, Neo received a \$1.9 million settlement for a patent infringement case filed, net of legal expenses incurred, in its Magnequench segment.

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

Finance costs, net, for the three month period ended March 31, 2018 was \$0.2 million compared to finance costs of \$0.1 million in the three month period ended March 31, 2017.

### ***Income tax expense***

Neo had an income tax expense of \$3.2 million on income from operations before taxes of \$13.1 million in the three month period ended March 31, 2018. Neo had an income tax expense of \$4.7 million on income from operations before taxes of \$12.6 million in the three month period ended March 31, 2017.

Neo's effective income tax rate was 24.4% and 37.4% for the three months ended March 31, 2018 and March 31, 2017, respectively. The change in the effective tax rate is due primarily to different amounts of earnings in each tax jurisdiction.

## **Other Expenditures and Legal Contingencies**

### ***Capital Expenditures***

Neo capitalized expenditures of \$2.3 million and \$1.4 million for the three month periods ended March 31, 2018 and March 31, 2017, respectively. The majority of these capital expenditures related to capital projects performed at the ZAMR, Tianjin and Silmet facilities. These capital projects included a combination of maintenance capital (to assist with the continuing development and operations of Neo) and growth capital (to assist in adding new capacity or new products).

### ***Legal contingencies***

Neo operates in a high technology and advanced engineering product environment in which many patents have been issued over time. The subsidiaries of Neo are currently, and may in the future become, involved in legal proceedings alleging patent infringement. At present, Neo is defending against patent infringement legal proceedings filed in Germany, the United Kingdom and the People's Republic of China. 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, among others, being in the early stage of a proceeding, 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 being incomplete; the complexity of the facts that are in dispute (e.g., the analysis of the patent and a comparison to the activities of Neo is a labor-intensive and highly technical process); the difficulty of assessing novel claims or legal arguments; and the parties not having engaged in any meaningful settlement discussions. Management is required to apply judgment with respect to estimating the potential impact of the ongoing patent litigation on Neo. Potential impacts to Neo include, but are not limited to, the 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, in March 2016, the German Court determined that certain of Neo's products infringed two expired patents of Rhodia Chimie ("Rhodia") (European patent #0735984 B1 ("984") and European patent #0863846 B1("846")) and management was ordered to provide information related to the calculation of damages. The Court also determined that certain of Neo's products infringe a third patent (European patent #0605274 ("274")). Neo filed an appeal in each of the three infringement actions and those appeals are still pending.

In September 2016, the German Federal Patent Review Court ruled in Neo's favor, invalidating 274 that it was previously found to infringe. Rhodia has appealed this judgment of invalidity, and its appeal is still pending. In October 2016, the German Federal Patent Court ruled on Neo's two other invalidity actions, significantly restricting the claims in one patent and slightly modifying the other. These two Court judgments are subject to ongoing appeals.

Management does not have sufficient information to comment on the quantum or methodology of the damages sought by Rhodia.

In December 2017, the Regional Court of Mannheim (Germany) determined that certain of Neo's products infringed a German patent (European & UK patents #1435338 B1 ("338")) and an injunction prohibiting the sale of affected products into Germany was granted. Neo has appealed the decision and continues to pursue a lawsuit to invalidate the patent upon which this infringement ruling is based. In April 2018, the UK Court determined that certain of Neo's products infringed the equivalent UK patent (338). Neo intends to request permission from the Court to appeal this judgment.

In January 2018, Neo reached a settlement with Magnesium Elektron Limited with respect to UK patent #1444036 whereby Neo is able to continue to sell its products into the UK on a royalty-free basis and without restriction. The terms of the settlement are subject to a confidentiality agreement.

On April 18, 2018, the Patent Reexamination Board of the State Intellectual Property Office of China ruled in favor of Neo by invalidating all claims associated with Chinese patent ZL 03817110.4, held by Rhodia Operations S.A.S., an affiliate of Brussels-based Solvay.

The following infringement proceedings are ongoing. These proceedings are at various stages of court proceeding including being at pre-trial stage, within infringement proceedings, as well as invalidity proceedings.

<b>Patent Reference</b>	<b>Jurisdiction of Claim</b>	<b>Specified Damages by Claimant</b>
Chinese patent ZL 03817110.4 . . . . .	China	\$3.0 million
Chinese patent ZL 200710146613.6 . . . . .	China	\$2.3 million
European patent 0863846 B1 . . . . .	Germany	\$8.4 million
European patent 0735984 B1 . . . . .	Germany	\$6.1 million
Chinese patent ZL 94194552.9 . . . . .	China	\$0.8 million
Chinese patent ZL 96196505.3 . . . . .	China	\$6.8 million
Chinese patent ZL 97195463.1 . . . . .	China	\$0.8 million
European & UK patents 1435338 B1 . . . . .	UK	Not specified
European & UK patents 1435338 B1 . . . . .	Germany	Not specified
European patent 0605274 B1 . . . . .	Germany	Not specified
European patent 0955267 . . . . .	Germany	Not specified
European patent 1527018 . . . . .	Germany	Not specified

Management has made an assessment, based on its interpretation of the claims as to the quantum of the appropriate provision. 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 other certain 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 reserves 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.

## **5. Non-IFRS Financial Measures**

This MD&A makes reference to certain non-IFRS financial measures. 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, including "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Net Income or Loss", "Adjusted OIBDA", "Adjusted OIBDA Margin", "EBITDA", "Adjusted Earnings per Share", "Free Cash Flow", "Free Cash Flow Conversion" and "OIBDA" 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 and thus highlight 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 in order to facilitate operating performance comparisons from period to period. Neo defines such financial measures as follows:

"**Adjusted EBITDA**" is defined as EBITDA before equity income (loss) in associates, other income (expense), foreign exchange loss (gain), reorganization items, stock and value-based compensation, impairment of goodwill and other long-lived assets, and acquired inventory fair value release;

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

"**Adjusted Net Income or Loss**" is defined as net income or loss before reorganization items, foreign exchange loss (gain), stock and value-based compensation, transaction costs associated with the Arrangement and the IPO, impairment of goodwill and other long-lived assets, and acquired inventory fair value release, net of the related tax effects and adjustment to deferred tax asset;

"**Adjusted OIBDA**" is defined as OIBDA before stock and value-based compensation, transaction costs associated with the Arrangement and the IPO, impairment of goodwill and other long-lived assets, and acquired inventory fair value release;

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

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

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

"**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; and

"**OIBDA**" is defined as operating income before depreciation and amortization.

Neo uses references to Adjusted OIBDA and Adjusted EBITDA interchangeably as the adjustments in each measure provides the same calculated outcome of operating performance. Management believes that the use of these adjustments (as defined in Adjusted EBITDA and Adjusted OIBDA) 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.

The following tables illustrate the comparison of the Adjusted OIBDA for the three month periods ended March 31, 2018 and 2017:

(\$000s, except volume)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Change	%
<b>Operating income</b> .....	\$ 13,505	\$ 10,880	\$ 2,625	24.1 %
Add back:				
Depreciation and amortization included in Costs of Sales .....	2,510	1,782	728	
Depreciation and amortization .....	1,882	1,685	197	
<b>OIBDA</b> .....	<b>17,897</b>	<b>14,347</b>	<b>3,550</b>	<b>24.7 %</b>
Acquired inventory fair value release <sup>(1)</sup> .....	—	2,935	(2,935)	
Stock and valued-based compensation <sup>(2)</sup> .....	1,391	3,358	(1,967)	
<b>Adjusted OIBDA</b> .....	<b>\$ 19,288</b>	<b>\$ 20,640</b>	<b>\$ (1,352)</b>	<b>(6.6)%</b>
<b>Adjusted OIBDA margin</b> .....	<b>16.0%</b>	<b>19.4%</b>		
Revenue .....	120,185	106,662	13,523	12.7 %
Sales volume (tonnes) .....	3,599	3,982	(383)	(9.6)%

**Notes:**

- (1) In accordance with IFRS 3 Business Combinations and on completion of the reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062 (please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report). A portion of this inventory was sold in the three month period ended March 31, 2017 and had a \$2,935 impact on operating income. Neo has removed this from operating income to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.
- (2) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the reorganization (please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report) and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value based compensation expense of \$301 and \$nil are included in selling, general, and administration expenses for the three month periods ended March 31, 2018 and March 31, 2017, respectively. Neo has removed both the stock and value based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.

Adjusted OIBDA was \$19.3 million or 16.0% of revenue for the three month period ended March 31, 2018 compared to \$20.6 million or 19.4% of revenue for the prior year period; a decrease of \$1.4 million or 6.6%.

Adjusted OIBDA for the three month period ended March 31, 2018 compared to the corresponding period in 2017 was higher in the Magnequench and Rare Metals segments but lower in the C&O segment. Despite a decline in volume quarter-over-quarter, the Magnequench segment continued to benefit from operational improvements, strategic purchasing and an increased selling price primarily due to certain underlying commodity rare earth price increases (which are generally subject to pass-through provisions, on a lagged basis). The Rare Metals segment benefited primarily from the additional capacity available at the Silmet facility, operational improvements implemented earlier in 2017 and timing differences associated with customer buying patterns. The C&O segment was primarily adversely affected by lost sales and premium freight costs in the first quarter of 2018, related to the planned environmental changes completed in the ZAMR facility in the second half of 2017.

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

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

(\$000s)	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>
<b>Net income</b> .....	<b>\$ 8,852</b>	<b>\$ 8,225</b>
Add back:		
Finance costs, net .....	237	65
Income tax expense .....	3,191	4,707
Depreciation and amortization included in Costs of Sales .....	2,510	1,782
Depreciation and amortization .....	1,882	1,685
<b>EBITDA</b> .....	<b>16,672</b>	<b>16,464</b>
<b>Adjustments to EBITDA:</b>		
Equity loss (income) in associates .....	1,020	(330)
Other expense (income) <sup>(1)</sup> .....	34	(1,773)
Foreign exchange loss (gain) <sup>(2)</sup> .....	171	(14)
Stock and value-based compensation expense <sup>(3)</sup> .....	1,391	3,358
Acquired inventory fair value release <sup>(4)</sup> .....	—	2,935
<b>Adjusted EBITDA</b> .....	<b>\$ 19,288</b>	<b>\$ 20,640</b>
<i>Adjusted EBITDA Margins</i> .....	<i>16.0%</i>	<i>19.4%</i>
Less:		
Capital expenditures .....	2,305	1,364
<b>Free Cash Flow</b> .....	<b>16,983</b>	<b>19,276</b>
<i>Free Cash Flow Conversion</i> <sup>(5)</sup> .....	<i>88.0%</i>	<i>93.4%</i>

**Notes:**

- (1) Represents other income (expenses) resulting from non-operational related activities. Other income in 2017 primarily relating to costs and insurance recoveries as a result of the fire at the Silmet facility. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents unrealized and realized foreign exchange losses/(gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (3) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the reorganization (please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report) and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value based compensation expense of \$301 and \$nil are included in selling, general, and administration expenses for the three month periods ended March 31, 2018 and March 31, 2017, respectively. Neo has removed both the stock and value based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.
- (4) In accordance with IFRS 3 Business Combinations and on completion of the reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the three month period ended March 31, 2017 and had a \$2,935 impact on net income. Neo has removed this from net income to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.
- (5) Calculated as Free Cash Flow divided by Adjusted EBITDA.

**Reconciliation of Net Income to Adjusted Net Income:**

<i>(\$000s)</i>	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>
<b>Net income</b> .....	<b>\$ 8,852</b>	<b>\$ 8,225</b>
<b>Adjustments to net income:</b>		
Foreign exchange loss (gain) <sup>(1)</sup> .....	171	(14)
Stock and value-based compensation expense <sup>(2)</sup> .....	1,391	—
Acquired inventory fair value release <sup>(3)</sup> .....	—	2,935
Tax impact of the above items .....	(146)	24
<b>Adjusted net income</b> .....	<b>\$ 10,268</b>	<b>\$ 11,170</b>
 <b>Attributable to:</b>		
Equity holders of Neo .....	10,083	11,123
Non-controlling interest .....	185	47
 Weighted average number of common shares outstanding:		
Basic .....	39,920,140	39,664,526
Diluted .....	40,402,139	39,997,259
 Adjusted earnings per share attributable to equity holders of Neo:		
Basic .....	0.25	0.28
Diluted .....	0.25	0.28

**Notes:**

- (1) Represents unrealized and realized foreign exchange losses/(gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
- (2) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the reorganization (please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report) and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value based compensation expense of \$301 and \$nil are included in selling, general, and administration expenses for the three month periods ended March 31, 2018 and March 31, 2017, respectively. Neo has removed both the stock and value based compensation expense from net income to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.
- (3) In accordance with IFRS 3 Business Combinations and on completion of the reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the three month period ended March 31, 2017 and had a \$2,935 impact on net income. Neo has removed this from net income to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

**6. 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).

## 6.1 Magnequench

<i>(\$000s, except volume)</i>	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>	<b>Change</b>	<b>%</b>
<b>Operating income</b> .....	<b>\$ 13,341</b>	<b>\$ 11,272</b>	2,069	18.4 %
Add back:				
Depreciation and amortization included in costs of sales .....	605	(292)	897	
Depreciation and amortization .....	1,382	1,422	(40)	
<b>OIBDA</b> .....	<b>15,328</b>	<b>12,402</b>	<b>2,926</b>	<b>23.6 %</b>
Acquired inventory fair value release <sup>(1)</sup> .....	—	836	(836)	
Stock and value-based compensation expense <sup>(2)</sup> ..	147	207	(60)	
<b>Adjusted OIBDA</b> .....	<b>\$ 15,475</b>	<b>\$ 13,445</b>	<b>\$ 2,030</b>	<b>15.1 %</b>
<b>Adjusted OIBDA margin</b> .....	<b>27.8%</b>	<b>28.3%</b>		
Revenue .....	55,734	47,444	8,290	17.5 %
Sales volume (tonnes) .....	1,527	1,659	(132)	(8.0)%

### Notes:

- (1) In accordance with IFRS 3 Business Combinations and on completion of the reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$7,994 for the Magnequench segment. A portion of this inventory was sold in the three month period ended March 31, 2017 and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.
- (2) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the reorganization (please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report) and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value based compensation expense of \$93 and \$nil are included in selling, general, and administration expenses for the three month periods ended March 31, 2018 and March 31, 2017, respectively. Neo has removed both the stock and value based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.

For the three month period ended March 31, 2018, revenue in the Magnequench segment was \$55.7 million compared to \$47.4 million in the three month period ended March 31, 2017; an increase of \$8.3 million or 17.5%. Volume declined to 1,527 tonnes compared to 1,659 tonnes in the three month period ended March 31, 2017; a decrease of 132 tonnes or 8.0%.

As noted above, in the three month period ended March 31, 2018, revenue increased by 17.5% whereas volume decreased by 8.0%. The Magnequench segment's products pricing is affected by commodity rare earth prices as Magnequench has material pass-through agreements with the vast majority of its customers, implemented on a lagged basis. Between July and September 2017, the segment saw an increase in these rare earth prices, specifically Neodymium ("Nd") and Praseodymium ("Pr"). The increase in prices subsided in the latter half of 2017, however, prices in the first quarter of 2018 remained higher than the average prices in the first quarter of 2017. As a result, selling prices and revenue increased despite the decrease in volume. The volume decrease can be attributed to decreases in some of the customer end markets such as the HDD market. These declines were partially offset in key growth areas including precision motor markets (used in auto and other segments) and traction motor growth. In addition, customer inventory management systems impacted volumes within the quarter including higher than expected sales in the three months ended March 31, 2017 contributed to the decline year over year.



Operating income for the three month period ended March 31, 2018 increased to \$13.3 million from \$11.3 million in the three month period ended March 31, 2017; an increase of \$2.1 million or 18.4%. Magnequench benefited from strategic purchases of raw materials, operating performance improvements and the lagging impact of selling price changes (from pass-through agreements). Through these factors, Magnequench reported strong increased operating performance in the three month period ended March 31, 2018 compared to the corresponding period in 2017.

For the three month period ended March 31, 2018, Adjusted OIBDA in the Magnequench segment was \$15.5 million compared to \$13.4 million in the three month period ended March 31, 2017; an increase of \$2.0 million or 15.1%.

## 6.2 C&O

<i>(\$000s, except volume)</i>	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>	<b>Change</b>	<b>%</b>
<b>Operating income</b> .....	<b>\$ 2,117</b>	<b>\$ 4,660</b>	<b>\$ (2,543)</b>	<b>(54.6)%</b>
Add back:				
Depreciation and amortization included in costs of sales .....	810	887	(77)	
Depreciation and amortization .....	350	147	203	
<b>OIBDA</b> .....	<b>3,277</b>	<b>5,694</b>	<b>(2,417)</b>	<b>(42.4)%</b>
Acquired inventory fair value release <sup>(1)</sup> .....	—	2,158	(2,158)	
Stock and value-based compensation <sup>(2)</sup> .....	243	414	(171)	
<b>Adjusted OIBDA</b> .....	<b>\$ 3,520</b>	<b>\$ 8,266</b>	<b>\$ (4,746)</b>	<b>(57.4)%</b>
<b>Adjusted OIBDA margin</b> .....	<b>7.8%</b>	<b>19.2%</b>		
Revenue .....	45,156	43,066	2,090	4.9 %
Sales volume (tonnes) .....	2,007	2,290	(283)	(12.4)%

### Notes:

- (1) In accordance with IFRS 3 Business Combinations and on completion of the reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$14,164 for the C&O segment. A portion of this inventory was sold in the three month period ended March 31, 2017 and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.
- (2) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the reorganization (please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report) and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value based compensation expense of \$135 and \$nil are included in selling, general, and administration expenses for the three month periods ended March 31, 2018 and March 31, 2017, respectively. Neo has removed both the stock and value based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.

For the three month period ended March 31, 2018, revenue in the C&O segment was \$45.2 million compared to \$43.1 million for the three month period ended March 31, 2017; an increase of \$2.1 million or 4.9%. Volume decreased to 2,007 tonnes compared to 2,290 tonnes in the prior year period, a decrease of 283 tonnes or 12.4%.

Revenue was up 4.9% compared to the prior year primarily relating to the increase in rare earth pricing, primarily Nd, Pr and Dysprosium ("Dy"), in the first quarter of 2018 compared to the corresponding period in 2017. Volumes in the separated rare earth business are down compared to the prior year primarily due to quarterly timing of sales of certain products, which is typical in the rare earth separation business. Volumes in the auto catalyst market declined by

approximately 10% compared to the prior year. This decline can be partially attributed to customers changing their buying patterns while Neo continued to re-fill the supply chain, impacted from the planned production slowdown in ZAMR the second half of 2017.

Operating income for the three month period ended March 31, 2018 decreased to \$2.1 million from \$4.7 million in the prior year; a decrease of \$2.5 million or 54.6%. Neo continues to incur premium freight costs (approximately \$3 million in the three month period ended March 31, 2018) to ensure its customers continue to receive product in time, following the implementation of the new wastewater treatment system. These premium freight costs are expected to continue, at a steadily reducing rate, into the second quarter of 2018 until the supply chain is refilled. Additionally, the C&O segment continued to incur legal costs to assist Neo in its defense against the infringement suits filed by Rhodia. See “*Legal Contingencies*” above.

For the three month period ended March 31, 2018, Adjusted OIBDA in the C&O segment was \$3.5 million compared to \$8.3 million in the three month period ended March 31, 2017; a decrease of \$4.7 million or 57.4%.

### 6.3 Rare Metals

<i>(\$000s, except volume)</i>	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>	<b>Change</b>	<b>%</b>
<b>Operating income (loss)</b> .....	<b>\$ 2,479</b>	<b>\$ 1,203</b>	<b>\$ 1,276</b>	<b>106.1%</b>
Add back:				
Depreciation and amortization included in costs of sales .....	1,096	1,187	(91)	
Depreciation and amortization .....	134	60	74	
<b>OIBDA</b> .....	<b>3,709</b>	<b>2,450</b>	<b>1,259</b>	<b>51.4%</b>
Acquired inventory fair value release <sup>(1)</sup> .....	—	(59)	59	
Stock and value-based compensation <sup>(2)</sup> .....	87	230	(143)	
<b>Adjusted OIBDA</b> .....	<b>\$ 3,796</b>	<b>\$ 2,621</b>	<b>\$ 1,175</b>	<b>44.8%</b>
<b>Adjusted OIBDA margin</b> .....	<b>16.7%</b>	<b>14.2%</b>		
Revenue .....	22,771	18,421	4,350	23.6%
Sales volume (tonnes) .....	135	93	42	45.2%

#### Notes:

- (1) In accordance with IFRS 3 Business Combinations and on completion of the reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$4,605 for the Rare Metals segment. A portion of this inventory was sold in the three month period ended March 31, 2017 and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.
- (2) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the reorganization (please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report) and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value based compensation expense of \$27 and \$nil are included in selling, general, and administration expenses for the three month periods ended March 31, 2018 and March 31, 2017, respectively. Neo has removed both the stock and value based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.

For the three month period ended March 31, 2018, revenue in the Rare Metals segment was \$22.8 million compared to \$18.4 million in the three month period ended March 31, 2017; an increase of \$4.4 million or 23.6%. Volume increased to 135 tonnes compared to 93 tonnes in the prior year period, an increase of 42 tonnes or 45.2%.

Revenue increased by \$4.4 million in the three month period ended March 31, 2018. This can be primarily attributed to more sales from the Silmet facility, as full production capacity had been restored through 2017, higher sales in the gallium trichloride business (as a customer has recovered from a fire that happened in mid-2017) and higher sales prices associated with the underlying products Neo sells. Revenues and product sales can also be impacted by timing of customer's purchases within quarterly comparison periods.

Operating income for the three month period ended March 31, 2018 increased to \$2.5 million from \$1.2 million in the three month period ended March 31, 2017; an increase of \$1.3 million. The improved performance was due to product mix, additional sales of high value added products, improved operating performance continuing from changes made throughout 2017 and increased selling prices of Neo's products. Strong improvements in results continued to be realized at the Silmet facility, due to a combination of increased volumes, higher flow-through margins and operational improvements and having lower cost inventory on hand.

For the three month period ended March 31, 2018, Adjusted OIBDA in the Rare Metals segment was \$3.8 million compared to \$2.6 million in the three month period ended March 31, 2017; an increase of \$1.2 million or 44.8%.

## 7. Summary of Consolidated Quarterly Results

(\$000s, except for earnings per share information)	2018		2017			2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
						Successor <sup>(1)</sup>	Combined <sup>(1)</sup>	Predecessor <sup>(1)</sup>
Revenue	\$120,185	\$109,452	\$116,421	\$101,634	\$106,662	\$ 101,008	\$ 94,695	\$ 94,876
Net (loss) income attributable to equity holders of Neo	8,667	(1,903)	9,051	9,294	8,178	(7,110)	(6,546)	1,111
Earnings per share attributable to equity holders of Neo:								
Basic EPS	0.22	(0.05)	0.23	0.23	0.21	(0.18)	n.a. <sup>(5)</sup>	n.a. <sup>(5)</sup>
Diluted EPS	0.21	(0.05)	0.22	0.23	0.20	(0.18)	n.a. <sup>(5)</sup>	n.a. <sup>(5)</sup>
Operating income (loss)	13,505	4,716	11,423	7,806	10,880	(4,605)	(1,325)	7,362
Add back:								
Depreciation and amortization included in costs of sales	2,510	2,491	2,678	3,150	1,782	3,205	2,604	2,658
Depreciation and amortization	1,882	1,587	2,435	1,711	1,685	2,348	1,467	1,942
OIBDA	17,897	8,794	16,536	12,667	14,347	948	2,746	11,962
Add back:								
Acquired inventory fair value release <sup>(2)</sup>	—	—	(531)	508	2,935	12,832	11,318	—
Stock and value-based compensation <sup>(3)</sup>	1,391	802	860	1,623	3,358	—	—	—
IPO transaction costs <sup>(4)</sup>	—	5,997	—	—	—	—	—	—
Adjusted OIBDA	\$ 19,288	\$ 15,593	\$ 16,865	\$ 14,798	\$ 20,640	\$ 13,780	\$ 14,064	\$ 11,962
Adjusted OIBDA margin	16.0%	14.2%	14.5%	14.6%	19.4%	13.6%	14.9%	12.6%

**Notes:**

- (1) The results for the three month period from July 1 to September 30, 2016 represent the operations of the Predecessor for July 1 to August 30, 2016 combined with the operations of the Successor from August 31 to September 30, 2016. Please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report.
- (2) In accordance with IFRS 3 Business Combinations and on completion of the reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the various periods after August 30, 2016 and had an impact on OIBDA. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with various periods.
- (3) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization (please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report) and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value based compensation expense of \$301 and \$402 were included in selling, general, and administration expense for the three month period ended March 31, 2018 and December 31, 2017, respectively. Neo has removed both the stock and value based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.
- (4) These costs are related to legal and professional advisory fees and other transaction costs incurred as a result of the IPO by way of Secondary Offering (please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report) in the three month period ended December 31, 2017. These charges were included in selling, general and administrative expenses. Neo has removed these charges from OIBDA for the three month period ended December 31, 2017 to provide comparability with historic periods.
- (5) As the weighted average number of common shares at the end of the Combined three month period ended September 30, 2016, and three month Predecessor period ended June 30, 2016 reflect different basis of accounting, earnings per share is not considered meaningful, and the calculation of basic and diluted earnings per share for these periods have not been provided.

Revenue over the prior eight quarters has shown a general positive growth trend with higher revenue in the first quarter of 2018.

Neo's continuing focus on the core downstream operations that form the Neo business has resulted in operational improvements and efficiencies, and a greater strategic focus on key growth segments specifically the auto catalyst business segments such as the electrification of automobiles, requirements for precision and efficient motors, hybrid and electric vehicles, increased regulations with respect to air and water emissions and light-weight and material trends in other industries such as aerospace and consumer electronics.

Adjusted OIBDA over the prior eight quarters have also shown a positive growth trend over the period with a particularly higher quarter in the first quarter of 2017. The ability of the Magnequench segment to recover some of the higher rare earth input costs by way of price resetting throughout the quarter as well as Silmet 's strong improvements in results mainly attributed to an increase of 23.7% Adjusted OIBDA over fourth quarter of 2017. Neo anticipates that the additional operating costs and lost sales opportunities relating to the production slowdown at ZAMR in the second half of 2017 are expected to subside in the second quarter of 2018, as the supply chain continues to be refilled.

## 8. Liquidity and Capital Resources

*Three month period ended March 31, 2018 compared to three month period ended March 31, 2017:*

<i>(\$000s)</i>	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>
<b><i>Cash flow:</i></b>		
Cash provided by operating activities . . . . .	\$ 1,377	\$ 12,587
Cash used by investing activities . . . . .	(2,305)	(1,364)
Cash used by financing activities . . . . .	(2,892)	(5,324)
<b><i>Financial position - as at</i></b>		
	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Cash and cash equivalents . . . . .	\$ 94,544	\$ 96,805
Property, plant and equipment . . . . .	88,165	88,392
Total assets . . . . .	553,498	538,493
Bank advances and other short term debt . . . . .	546	181

At March 31, 2018, Neo had cash and cash equivalents of \$94.5 million, compared to \$96.8 million as at December 31, 2017. Neo paid a \$3.0 million dividend to its shareholders on March 29, 2018 and purchased \$0.2 million of its shares under the Normal Course Issuer Bid (the "**Bid**") program in the three months ended March 31, 2018. In addition, Neo has approximately \$29.3 million available under its credit facilities with nominal amounts drawn. 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, 2017 were:

### ***Inflows***

- \$17.8 million cash from operations before net change in working capital;
- \$0.4 million, net, drawn on the credit line;
- \$0.1 million of interest received, net;

### ***Outflows***

- \$3.0 million of dividends paid (including dividends paid to minority interest partners);
- \$13.6 million net change in working capital;
- \$2.3 million of capital spending; and
- \$0.2 million on the repurchase of Neo's common shares;
- \$2.9 million of income taxes paid.

### ***Cash Provided by Operating Activities***

Net cash provided by operating activities was \$1.4 million during the three month period ended March 31, 2018, compared to \$12.6 million in the corresponding period ended March 31, 2017, primarily impacted by increased cash used to support working capital.

The \$13.6 million net cash used in non-cash working capital for the three month period ended March 31, 2018, is primarily attributable to increases in inventories as more raw materials were purchased at the end of the quarter, other assets as prepayments were made to secure the raw material supplies, and changes in accounts payable and accrued charges, primarily due to the timing of raw material purchases, professional fee disbursements related to the initial public offering and accrued IP related legal costs.

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

For the three month period ended March 31, 2018, net cash used in investing activities was \$2.3 million, compared to \$1.4 million in the three month period ended March 31, 2017; an increase of \$0.9 million. These expenditures related primarily to operating capacity expansion and capital maintenance at the Chinese and Estonian operations.

### ***Cash used in Financing Activities***

Net cash used in financing activities during the three month period ended March 31, 2018 was \$2.9 million, compared to \$5.3 million in the corresponding period in 2017. Neo distributed a \$3.0 million dividend to its shareholders and a nominal dividend to its non-controlling interest partners, borrowed a net \$0.4 million from its German bank credit line, and spent \$0.2 million on its repurchase of common shares. In the three month period ended March 31, 2017, Neo repaid \$5.3 million of bank advances in China and Germany.

*(\$000s)*

<b><i>Cash and cash equivalents by Country as at</i></b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
China (including Hong Kong) .....	\$ 51,004	\$ 54,062
Estonia .....	3,503	2,334
United States .....	3,451	3,765
Canada .....	3,397	2,947
Japan .....	4,386	3,070
United Kingdom .....	3,473	2,012
Germany .....	6,603	5,284
Singapore .....	7,207	8,449
Barbados .....	7,330	4,168
Thailand .....	2,056	2,178
Cayman Island .....	120	6,562
Other .....	2,014	1,974
<b>Total cash and cash equivalents .....</b>	<b>\$ 94,544</b>	<b>\$ 96,805</b>

Approximately \$10.1 million of cash on hand held by Neo's foreign operating subsidiaries relate to earnings that are considered indefinitely reinvested in these foreign subsidiaries. Although substantially all of Neo's cash and cash equivalents can be repatriated, a portion may be subject to withholding taxes under current tax laws. While some of Neo's subsidiaries are subject to local governmental restrictions on the flow of capital into and out of 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, and 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 and Germany, borrowing under certain bank loans. From time to time, the sources of liquidity for Neo's operating subsidiaries may be supplemented by intercompany loans in the form of interest bearing unsecured promissory notes. Neo's operating subsidiaries' liquidity generally is used to fund their working capital requirements, investments, capital expenditures and third-party debt service requirements.

## 9. 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
Operating lease obligations <sup>(1)</sup> . . .	\$ 2,090	3,409	2,193	42	\$ 7,734
Accounts payable and other accrued charges . . . . .	76,034	—	—	—	76,034
Derivative liability <sup>(2)</sup> . . . . .	—	—	—	10,186	10,186
Provisions <sup>(3)</sup> . . . . .	—	4,665	—	—	4,665
Other liabilities . . . . .	—	689	—	—	689
<b>Total</b> . . . . .	<b>\$ 78,124</b>	<b>\$ 8,763</b>	<b>\$ 2,193</b>	<b>\$ 10,228</b>	<b>\$ 99,308</b>

### Notes:

- (1) Represents all operating lease payments for office space, land and office equipment.
- (2) Represents the fair value of the put option on shares of the remaining shareholder of Buss & Buss.
- (3) Represents management's best estimate of the costs to be incurred by Neo for the disposal of the hazardous NORM currently being stored at the Silmet facility.

As at March 31, 2018, Neo had \$94.5 million of cash and cash equivalents and approximately \$0.9 million of restricted cash in Canada, and \$0.6 million of restricted cash in the United States, both held as collaterals against Letters of Credit. Neo believes that the remainder of its cash, in addition to cash from operating activities, is available (or sufficient) to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months. Neo considers cash to be "available" to the extent it can be utilized in operating activities, for capital expenditures, for intercompany loans or for repatriation. Neo also maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

## 10. Normal Course Issuer Bid

On March 19, 2018, Neo announced that the Toronto Stock Exchange (the "TSX") has accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "Bid") for up to 1,996,078 of its issued and outstanding common shares (the "Shares"). In connection with the Bid, Neo has entered into an automatic share purchase plan with its designated broker to allow for purchases of its Shares (the "Share Purchase Plan"). The Share Purchase Plan is considered an "automatic plan" for purposes of applicable Canadian securities laws. Under the Share Purchase Plan, Neo's broker may purchase Shares on any trading day during the Bid, including during self-imposed trading blackout periods. The price that Neo will pay for any Shares purchased under the Bid will be the prevailing market price at the time of purchase. Any Shares purchased by Neo will be canceled.

As of March 16, 2018, being the date of the notice of the Bid, there were 39,921,577 Shares issued and outstanding. The 1,996,078 Shares that may be repurchased under the Bid represent approximately 5% of the issued and outstanding Shares on March 16, 2018.

For the three months ended March 31, 2018, Neo repurchased and canceled 16,600 Shares for a total consideration of \$0.2 million.

## **11. Subsequent Event**

On May 9, 2018, the Board of Directors declared a quarterly dividend of Canadian dollar ("Cdn") \$0.095 per Common Share payable in cash on June 29, 2018, to common shareholders of record at the close of business on June 22, 2018.

## **12. Off-Balance Sheet Arrangements**

As of March 31, 2018, Neo's only off-balance sheet arrangements are the operating leases and purchase obligations included in the contractual obligations table above.

## **13. Critical Accounting Estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Estimates and underlying assumptions are reviewed on an ongoing basis. They are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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, stock-based compensation and expected credit losses, please refer to the MD&A dated March 9, 2018 in Neo's 2017 Annual Report. Neo cautions readers that the actual results could differ materially from those estimates and assumptions.

## **14. Related Party Transactions and Balances**

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

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

### ***Transactions with associates***

Neo holds a 33% investment in Toda Magnequench Magnetic Materials Co. Ltd. ("TMT"), which produces rare earth magnetic compounds with Magnequench Powders supplied by Magnequench's Tianjin facility in its normal course of business. Magnequench's Tianjin facility will then purchase these compounds back from TMT.

Neo holds a 25% ownership interest in Ganzhou Keli Rare Earth New Material Co., Ltd. ("Keli"), a company which converts rare earth oxides into metals for use in Magnequench Powders.

Neo also holds a 20% ownership interest in GQD Special Materials (Thailand) Co., Ltd. ("GQD"), a company which converts rare earth oxides into metals for use in Magnequench Powders.

For the three month period ended March 31, 2018, Neo purchased \$0.3 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$19.2 million, and received services from GQD amounting to \$0.3 million.

For the three months ended March 31, 2018, Neo sold Magnequench Powders and performed services amounting to \$0.7 million to TMT.



For the three month period ended March 31, 2017, Neo purchased \$0.3 million worth of compounds from TMT, and purchased metals and received services from Keli amounting to \$13.5 million, and received services from GQD amounting to \$0.2 million. For the three month period ended March 31, 2017, Neo sold Magnequench Powders and performed services amounting to \$0.6 million to TMT.

**Transactions with joint venturers**

Neo, through its sales company in Japan, Neo Japan Inc., has occasionally purchased Gallium from Beijing Jiya Semiconductor Material Co., Ltd. ("**Beijing Jiya**") for resale to third party customers. For the three month periods ended March 31, 2018 and March 31, 2017, these purchases were \$0.7 million and nil, respectively.

Neo also has occasionally purchased and sold products from and to Ganzhou Qian Dong Rare Earth Group Co. Ltd. and Toda Kogyo Corp. The amounts of these transactions were not significant.

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

<i>(\$000s)</i>	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>
Sale of goods and services to related parties . . . . .	\$ 965	\$ 570
Purchase of goods and services from related parties . . . . .	20,562	14,000
	<b>March 31, 2018</b>	<b>December 31, 2017</b>
<i>(\$000s)</i>		
Trade balances:		
from related parties . . . . .	\$ 360	\$ 160
due to related parties . . . . .	(14,947)	(12,943)
<b>Total</b> . . . . .	<b>\$ (14,587)</b>	<b>\$ (12,783)</b>

**Directors and Key Management Compensation**

Key management personnel consist of those persons having authority and responsibility for planning, directing and controlling the activities of Neo, directly or indirectly. Key management personnel include Neo's executive officers, vice-presidents and members of its board of directors. Neo's key management compensation expenses include short-term benefits, post-employment benefits and stock-based compensation expenses. Total key management compensation expenses incurred are as follows:

<i>(\$000s)</i>	<b>Three Months Ended March 31, 2018</b>	<b>Three Months Ended March 31, 2017</b>
Directors . . . . .	\$ 147	\$ 469
Key Executive Management . . . . .	1,940	3,466
<b>Total</b> . . . . .	<b>\$ 2,087</b>	<b>\$ 3,935</b>

Key management compensation expenses were particularly affected in the three months ended March 31, 2017 with the implementation of the stock-based compensation plan.

## 15. Financial Instruments and Risk Management

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

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

The level in which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the consolidated statements of financial position as at March 31, 2018 are grouped into the fair value hierarchy as follows:

<i>(\$000s)</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial Liabilities:</b>			
Put option issued to non-controlling interest of Buss & Buss .....	\$ —	\$ —	\$ 10,186

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

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

There have been no transfers between levels for the period ended March 31, 2018.

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

### ***Commodity price risk***

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

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

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

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

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

### ***Credit risk***

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

Under IFRS 9 - Financial Instruments ("**IFRS 9**"), Neo establishes loss allowance using the expected credit losses ("**ECL**") impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at March 31, 2018, Neo has a loss allowance of \$0.1 million. The estimated credit losses, if any, is included in selling, general and administrative expenses in the condensed consolidated statements of profit or loss, and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose Neo to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at March 31, 2018, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

### ***Liquidity risk***

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

As at March 31, 2018, Neo is able to meet its financial obligations as they fall due.

## **16. Changes in Accounting Policies**

### **IFRS 9 - Financial instruments**

Effective January 1, 2018, Neo has adopted IFRS 9 and elected to not restate comparative information for prior periods. IFRS 9 supersedes IAS 39 - Financial Instruments: Recognition and Measurement ("**IAS 39**"). IFRS 9 provides a revised model for classification, measurement, impairment and derecognition of financial assets and liabilities, as well as general hedge accounting. IFRS 9 eliminates previous IAS 39 financial asset categories of held to maturity, available-for-sale and loans and receivable. IFRS 9 also requires a loss allowance for ECL on a financial asset that is measured at amortized cost.

The following table summarized the classification impacts upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS 9 did not result in a change in the carrying value of any of Neo's financial instruments on the transition date.

<b>Financial Assets</b>	<b>Classification under IAS 39</b>	<b>Classification under IFRS 9</b>
Cash and cash equivalent . . . . .	Fair value through profit or loss ("FVPL")	Amortized cost
Accounts receivable . . . . .	Loans and receivables	Amortized cost
Bank advances and other short-term debt . . . . .	Other liabilities	Amortized cost
Accounts payable and other accrued charges. . . . .	Other liabilities	Amortized cost
Derivative liability . . . . .	FVPL	FVPL

As a result of the adoption of IFRS 9, Neo's accounting policy for financial instruments has been updated as follows:

**Financial instruments - classification and measurement**

Financial assets are classified and measured based on these categories: FVPL; fair value through other comprehensive income ("FVOCI"); or amortized cost. Financial liabilities are classified and measured based on two categories: FVPL or amortized cost.

Financial assets and liabilities classified as FVPL are measured at fair value with changes in fair value recognized in the consolidated statements of profit or loss. Financial assets designated as FVOCI are measured at fair value with changes in fair value recognized in other comprehensive income with such changes never being reclassified to profit or loss. Financial assets and liabilities classified as amortized cost are initially measured at fair value, net of any transaction costs incurred and are measured subsequently using the effective interest method.

**IFRS 15 - Revenue from contracts with customers**

Effective January 1, 2018, Neo has adopted IFRS 15 - Revenue from Contracts with Customers ("**IFRS 15**"). IFRS 15 supersedes IAS 18 - Revenue and related interpretations. IFRS 15 provides a five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall in the scope of other IFRSs. In addition to the five-step model, the standard also includes expanded disclosure requirements for annual financial statements to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The majority of Neo's revenue stream comes from the sale of goods. Revenue from sales contracts with customers, if any, under the scope of IFRS 15 is recognized when a customer obtains control of the promised goods and Neo satisfies its performance obligation. Revenue is allocated to each performance obligation. Neo satisfies its performance obligations for its sales contracts based upon specified contract terms which are generally upon shipment or upon delivery.

Neo adopted IFRS 15 using the modified retrospective method, with recognition of transitional adjustments, if any, in retained earnings on the date of initial application on January 1, 2018, without restatement of comparative figures. The adoption of IFRS 15 did not result in significant changes in the accounting for revenue from contracts with customers and Neo has concluded that there was no significant impact on its unaudited interim condensed consolidated financial statements for the three month period ended March 31, 2018 as a result of applying IFRS 15.

## **IFRIC 22 - Foreign currency transactions and advance consideration**

Effective January 1, 2018, Neo has adopted IFRIC 22 - Foreign Currency Transactions and Advance Consideration ("**IFRIC 22**"). IFRIC 22 clarifies which date should be used for translation when foreign currency transactions involve an advance payment or receipt. IFRIC 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of the advance consideration. Neo has elected to adopt IFRIC 22 prospectively. The adoption of IFRIC 22 has had no significant impact on Neo's unaudited interim condensed consolidated financial statements for the three month period ended March 31, 2018.

## **17. Recent Accounting Pronouncements**

The following accounting pronouncements issued by the IASB were not effective for Neo as at March 31, 2018 and therefore have not been applied in preparing the unaudited interim condensed consolidated financial statements. Neo intends to adopt these standards, if applicable, when they become effective.

### **IFRS 16 - Leases**

On January 13, 2016, the IASB issued IFRS 16 - Leases ("**IFRS 16**"). IFRS 16 supersedes IAS 17 - Leases, IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC-15 - Operating Leases – Incentives and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, will be recorded in the statements of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. IFRS 16 has an effective date of January 1, 2019, with early application permitted only if IFRS 15 has also been adopted. Management is currently assessing the impact of this standard on its consolidated financial statements and expects to complete the assessment in the second half of 2018.

### **IFRIC 23 - Uncertainty over income tax treatments**

On June 7, 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over income tax treatments ("**IFRIC 23**"). IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 - Income taxes ("**IAS 12**") when there is uncertainty over income tax treatments, and requires an entity to determine whether tax treatments should be considered collectively or independently. In addition, IFRIC 23 addresses the assumptions an entity should make about the examination of tax treatments by taxation authorities, as well as how an entity should consider changes in facts and circumstances. IFRIC 23 also provides guidance on how to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, based on whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. This interpretation is effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively, or on a cumulative retrospective basis. Neo is in the process of determining the impact of this interpretation on its consolidated financial statements and expects to complete the assessment in the second half of 2018.

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

### ***Disclosure controls and procedures***

Neo's Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") are responsible for establishing and maintaining disclosure controls and procedures for Neo. Neo maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis. The CEO and CFO have evaluated the design of Neo's disclosure controls

and procedures at the end of the quarter and based on the evaluation, the CEO and CFO have concluded that the disclosure controls and procedures are effectively designed.

***Internal controls over financial reporting***

Neo's internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Neo's management is responsible for establishing and maintaining adequate ICFR for Neo. National Instrument 52-109 of the Canadian Securities Administrators requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for Neo and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to Neo's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. There have been no material changes during the current quarter. Neo's management under the supervision of the CEO and CFO has evaluated the design of Neo's ICFR based on the Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As at March 31, 2018, management assessed that Neo's ICFR were appropriately designed.

In designing such controls, management, including the CEO and CFO, recognized that due to inherent limitations, any controls, no matter how well designed and operated, 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. Therefore, even when determined to be designed effectively, disclosure controls and internal control over financial reporting can provide only reasonable assurance with respect to disclosure, reporting and financial statement preparation.

**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 9, 2018, in its 2017 Annual Report.

**20. Outstanding Shares Data**

<b>Class of Equity Security</b>	<b>Numbers Outstanding</b>
Common Shares . . . . .	39,904,977
Stock Options* . . . . .	1,098,708
Restricted Share Units, Performance Stock Units, & Special Performance Stock Units . . . . .	1,375,285

\*Each stock option can be exercised to purchase one Common Share.

The number of Common Shares outstanding as at May 11, 2018 is 39,904,477.

**21. Additional Information**

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