MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2020

Management's Discussion and Analysis

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

The following Management's Discussion and Analysis ("**MD&A**") for Neo Performance Materials Inc. ("**Neo**") should be read in conjunction with the MD&A and the audited consolidated financial statements for the year ended December 31, 2019, dated March 11, 2020, available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com. Unless otherwise stated, references in this section to "Neo", "our", "we" or "Group", refer to Neo Performance Materials Inc. and its consolidated subsidiaries.

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

This discussion contains forward-looking statements and information. The actual results, performance and achievements could differ materially from those implied by these forward-looking statements as a result of various factors, including those discussed in the MD&A dated March 11, 2020 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 13, 2020. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur that could affect Neo in the future.

1. Forward-Looking Information

The following discussion and analysis contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to future events or future performance of Neo. All statements in this disclosure, other than statements of historical facts, with respect to Neo's objectives and goals, as well as statements with respect to its beliefs, plans, objectives, expectations, anticipations, estimates, and intentions are forward-looking information. Specific forward-looking statements in this discussion include, but are not limited to the following: expectations regarding certain of Neo's future results and information, including, among other things: revenue, expenses, revenue growth, capital expenditures, and operations; statements with respect to expected use of cash balances; continuation of prudent management of working capital; source of funds for ongoing business requirements and capital investments; expectations regarding sufficiency of the allowance for uncollectible accounts and inventory provisions; analysis regarding sensitivity of the business to changes in exchange rates; impact of recently adopted accounting pronouncements; risk factors relating to intellectual property protection and intellectual property litigation; risk factors relating to national or international economies (including the impact of COVID-19), and other risks present in the jurisdictions in which Neo, its customers, its suppliers, and/or its logistics partners operate, and; expectations concerning any remediation efforts to Neo's design of its internal controls over financial reporting and disclosure controls and procedures. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or can state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. This information involves known and unknown risks and uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Neo believes the expectations reflected in such forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this discussion and analysis should not be unduly relied upon. For more information on Neo, investors should review Neo's continuous disclosure filings that are available under its profile at www.sedar.com.

The forward-looking information is only provided as of the date of this MD&A, May 13, 2020, and is subject to change as a result of new information, future events or other circumstances, as discussed above, in which case the forward-looking information will be updated by Neo as required by law.

2. Overview

Neo manufactures the building blocks of many modern technologies that enhance efficiency and sustainability. Neo's advanced industrial materials, magnetic powders and magnets, specialty chemicals, metals, and alloys, are critical to the performance of many everyday products and emerging technologies. Neo's products help to deliver the technologies of tomorrow to consumers today.

Neo has approximately 1,835 employees and has a global platform that includes 11 manufacturing facilities located in China, the United States ("**U.S.**"), Germany, Canada, Estonia, Thailand and South Korea, as well as two dedicated research and development ("**R&D**") centres in Singapore and the United Kingdom ("**UK**"). Since 1994, Neo has leveraged its processing expertise to innovate and grow into a leading manufacturer of advanced industrial materials for specialty end markets. Neo has established itself as a leading commercial partner to some of the world's largest customers in the automotive, semiconductor, advanced electronic and specialty chemical industries. As a result, Neo is well positioned in markets that are forecast to see robust, long-term growth driven by multiple global macro trends, such as vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and superalloys. Neo identifies growth markets driven by global macro trends such as these, and produces highly engineered industrial materials that are critical to the performance of applications in those markets.

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

Magnequench

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

C&O

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

Rare Metals

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

Corporate

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

3. Selected Financial Highlights

($000s, except volume)	Three Months Ended March 31,		
	2020	2019	2018
Revenue			
Magnequench	$ 38,526	$ 47,555	$ 55,734
C&O	33,538	43,573	45,156
Rare Metals	20,450	21,531	22,771
Corporate / Eliminations	(1,817)	(4,129)	(3,476)
Consolidated Revenue	**$ 90,697**	**$ 108,530**	**$ 120,185**
Operating Income (Loss)			
Magnequench	$ 5,539	$ 9,481	$ 13,341
C&O	2,974	6,626	2,117
Rare Metals	(177)	157	2,479
Corporate / Eliminations	(3,329)	(25)	(4,432)
Consolidated Operating Income	**$ 5,007**	**$ 16,239**	**$ 13,505**
Adjusted EBITDA (1)			
Magnequench	$ 7,715	$ 10,929	$ 15,475
C&O	4,413	6,988	3,520
Rare Metals	911	1,175	3,796
Corporate / Eliminations	(3,394)	(2,606)	(3,503)
Consolidated Adjusted EBITDA	**$ 9,645**	**$ 16,486**	**$ 19,288**
Volume (in mt)			
Magnequench	1,271	1,445	1,527
C&O	1,935	2,135	2,007
Rare Metals	142	118	135
Corporate / Eliminations	(45)	(91)	(70)
Consolidated Volumes	**3,303**	**3,607**	**3,599**
Net Income	**$ 518**	**$ 12,227**	**$ 8,852**
Attributable to:			
Equity holders of Neo	363	12,247	8,667
Non-controlling interest	155	(20)	185
Earnings per share attributable to equity holders of Neo			
Basic	$ 0.01	$ 0.31	$ 0.22
Diluted	$ 0.01	$ 0.31	$ 0.21
Adjusted Net Income (2)	**$ 869**	**$ 8,140**	**$ 10,268**
Attributable to:			
Equity holders of Neo	714	8,160	10,083
Non-controlling interest	155	(20)	185
Adjusted Earnings per Share attributable to equity holders of Neo (2):			
Basic	$ 0.02	$ 0.21	$ 0.25
Diluted	$ 0.02	$ 0.20	$ 0.25
Capital expenditures	$ 1,502	$ 2,665	$ 2,305
Cash taxes paid	$ 2,598	$ 1,901	$ 2,896
Dividends paid to shareholders	$ 2,836	$ 2,850	$ 3,013
Repurchase of common shares under Normal Course Issuer Bid	$ 950	$ 934	$ 224

	March 31,	December 31,	
	2020	2019	2018
Cash and cash equivalents	$ 75,964	$ 84,735	$ 71,015
Debt	$ 1,205	$ 54	$ 3,970

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.

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

Highlights for the three months ended March 31, 2020

Consolidated Results

- For the three months ended March 31, 2020, revenues of $90.7 million were 16.4% lower than in the same period of 2019. The Magnequench segment led the decline in revenues as volumes were adversely affected by slower economic activity primarily in China, due to the COVID-19 pandemic. The C&O segment saw growth in environmental automotive catalysts for both three-way gasoline and diesel vehicles, which was offset by lower rare earth sales and spot sales. The revenue decline in the Rare Metals segment was driven by the decline in pricing for tantalum-based products and lower volume in gallium-based products.

- Operating income was $5.0 million in 2020, a decline of $11.2 million compared to the first quarter of 2019. Neo also reported lower net income for the three months ended March 31, 2020. The Magnequench segment was adversely affected by lower volumes, mix, foreign exchange costs and the timing effect of the input cost pass-through mechanic. The C&O segment benefited from increased volumes in its environmental automotive catalyst business, but this was offset by less spot sales, and a continuing decline in rare earth commodity prices. The Rare Metals segment was adversely impacted by lower tantalum selling prices with higher inventoried costs.

- Adjusted EBITDA for the three months ended March 31, 2020 was $9.6 million; a decrease of $6.8 million compared to the same period in 2019.

- Neo continues to see longer-term growth in demand for many of its key products driven by several global macro trends, including increased electrification of automobiles, which increases the need for Neo's functional materials on a per-vehicle basis; greater demand for precision and efficient motors across multiple sectors, which encourages higher utilization of Neo's magnetic materials; growth in hybrid and electric vehicles; more stringent government regulation with respect to air and water emissions; and trends toward greater utilization of lighter-weight materials in industries such as aerospace and consumer electronics. Neo's advanced industrial materials are integral to technologies in all these end markets.

Magnequench Segment

- For the three months ended March 31, 2020, volumes decreased 12.0% compared to the first quarter of 2019. Revenues were down $9.0 million, due to lower volumes and lower material input commodity prices. Neo passes through these material input cost changes to most of its customers on a lagged basis. Volumes were adversely affected by extended customer shutdowns and slowdowns, primarily for customers in China, caused by the COVID-19 pandemic. Magnequench's products are ultimately destined for use in applications across the entire global market, but the first-level supply partner is often in China and the Asian region. Accordingly, the impact of COVID-19 was felt by Magnequench over the majority of the quarter.

- Adjusted EBITDA was $7.7 million for the three months ended March 31, 2020, compared to $10.9 million in the same period of 2019. Adjusted EBITDA was affected by lower volumes (both in margin and overhead absorption), changes in foreign exchange rates, and by timing impacts from Neo's input cost pass-through mechanics. This pass-through mechanic, which updates selling prices on a lagged basis (generally monthly and quarterly) is a key feature of Neo's strategic focus on value-add margins.

Chemicals and Oxide (C&O) Segment

- In the three months ended March 31, 2020, both three-way and diesel automotive environmental catalyst volumes grew year-over-year, despite the general slowdown in China and in the automotive market. For the three months ended March 31, 2020, C&O's rare earth separation business was adversely impacted by the continuing decline of rare earth commodity prices, which led to a lagging impact of higher-cost inventory relative to current selling prices. For the three months ended March 31, 2019, the C&O segment benefited from the timing of some high-value spot sales orders, which did not repeat in three months ended March 31, 2020.

Rare Metals Segment

- Rare Metal's operating loss of $0.2 million in the three months ended March 31, 2020 was driven by the continued usage of historical higher-cost tantalum-based products and by a general slowdown in gallium trichloride-related markets. The Rare Metals segment had considerable material in the production system, so when material prices change, there is a lead-lag impact into current period results as the operation is processing and selling material on hand purchased in a prior period. The majority of this higher cost inventory has been used by the end of first quarter.

Cash and Other Highlights for the three months ended March 31, 2020

- Neo continues to have a strong financial position. As at March 31, 2020, Neo had $76.0 million in cash and $1.2 million in debt.

- Neo invested $1.5 million in capital expenditures and paid $2.6 million in cash taxes in the three months ended March 31, 2020.

- For the three months ended March 31, 2020, Neo paid dividends to its shareholders of $2.8 million and $2.3 million to non-controlling interest partners. As part of the Normal Course Issuer Bid (the "**Bid**") program, Neo purchased and canceled 126,200 shares with an aggregate disbursement of $1.0 million.

Impact of COVID-19

The COVID-19 virus has impacted many industries across many countries, starting with China early in the quarter and then impacting economies all over the world. Neo's end markets are distributed globally and Neo sells its products into the automotive, aerospace and other industrial segments. These industries and their supply chains are global and complex. It is unknown how the continuing impact of COVID-19 will affect Neo's customers and other supply chain elements.

4. Consolidated Results of Operations

Comparison of the three months ended March 31, 2020 to the three months ended March 31, 2019

($000s)	Three Months Ended March 31,	
	2020	**2019**
Revenue	90,697	108,530
Costs of sales		
Costs excluding depreciation and amortization	66,249	78,389
Depreciation and amortization	2,720	2,410
Gross profit	**21,728**	**27,731**
Expenses		
Selling, general and administrative	11,961	7,296
Share-based compensation	(227)	(390)
Depreciation and amortization	2,036	1,985
Research and development	2,951	2,601
	16,721	11,492
Operating income	**5,007**	**16,239**
Other expense	(194)	(126)
Finance cost, net	(945)	(1,382)
Foreign exchange (loss) gain	(450)	93
Income from operations before income taxes and equity income (loss) of associates	**3,418**	**14,824**
Income tax expense	(2,842)	(2,835)
Income from operations before equity income (loss) of associates	**576**	**11,989**
Equity income (loss) of associates (net of income tax)	(58)	238
Net income	**$ 518**	**$ 12,227**
Attributable to:		
Equity holders of Neo	363	$ 12,247
Non-controlling interest	155	(20)
	$ 518	**$ 12,227**
Earnings per share data attributable to equity holders of Neo:		
Basic	$ 0.01	$ 0.31
Diluted	$ 0.01	$ 0.31

Revenue

Neo's consolidated revenue for the three months ended March 31, 2020 was $90.7 million, compared to $108.5 million for three months ended March 31, 2019; a decrease of $17.8 million or 16.4%.

For the three months ended March 31, 2020, Magnequench segment revenue was $38.5 million, compared to $47.6 million in the prior year; a decrease of $9.0 million or 19.0%. The Magnequench segment represented 42.5% of consolidated revenue in the three months ended March 31, 2020.

For the three months ended March 31, 2020, C&O segment revenue, including inter-segment revenue, was $33.5 million, compared to $43.6 million for the same period in the prior year; a decrease of $10.0 million or 23.0%. The C&O segment represented 37.0% of consolidated revenue in the three months ended March 31, 2020.

For the three months ended March 31, 2020, Rare Metals segment revenue was $20.5 million, compared to $21.5 million for the same period in the prior year; a decrease of $1.1 million or 5.0%. The Rare Metals segment represented 22.5% of consolidated revenue in the three months ended March 31, 2020.

Inter-segment revenue in the three months ended March 31, 2020 was $1.8 million, compared to $4.1 million in the three months ended March 31, 2019. These have been eliminated on consolidation from C&O segment revenue as C&O sold product to Magnequench in the respective periods. The products sold to Magnequench are potential marketable third-party sales and are generally sold at fair market value.

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

Costs of sales

Consolidated costs of sales, excluding depreciation and amortization, was $66.2 million in the three months ended March 31, 2020, compared to $78.4 million in the corresponding period in 2019; a decrease of $12.1 million or 15.5%. Costs of sales, excluding depreciation and amortization, decreased as a result of lower revenue in the three months ended March 31, 2020, in addition to the impacts of product cost, product mix, and operational changes in the business segments.

Consolidated depreciation and amortization in costs of sales were $2.7 million for the three months ended March 31, 2020, compared to $2.4 million in the corresponding period in 2019.

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

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

Neo's SG&A expense consists primarily of personnel and related costs, including freight, legal, accounting and other professional fees, and information technology costs. For the three months ended March 31, 2020, SG&A expense was $12.0 million, compared to $7.3 million in the corresponding period last year.

In December 2018, Neo entered into an arrangement agreement with Luxfer Holdings plc ("**Luxfer**") and 2671219 Ontario Inc. (the "**Purchaser**"), a wholly-owned subsidiary of Luxfer, pursuant to which, the Purchaser would acquire the issued and outstanding common shares for a combination of cash and stock (the "**Luxfer Transaction**"). On March 10, 2019, Luxfer and Neo mutually agreed to terminate the Luxfer Transaction. The lower SG&A costs in 2019 relate primarily to a recovery of $1.9 million for expenses Neo incurred related to the termination of the Luxfer Transaction ($3.5 million receivable from Luxfer less costs incurred in the first quarter of 2019), and a recovery of value bonus expenses (cumulative expense adjustment based on the impact of the termination of the arrangement agreement).

Share-based compensation

For the three months ended March 31, 2020, there was a $0.2 million recovery in share-based compensation, compared to $0.4 million recovery for the corresponding three months ended March 31, 2019. During the three months ended March 31, 2019, there has been a revision of the vesting period from the previous estimate for Share Options and Restricted Share Units ("**RSU**s") pursuant to the termination of the Luxfer Transaction. Neo subsequently revised and adjusted the recognized share-based compensation expense cost on a cumulative basis. This resulted in a share-based compensation recovery in the three months ended March 31, 2019.

Depreciation and amortization

Depreciation and amortization unrelated to production for the three months ended March 31, 2020 and 2019 were consistent at $2.0 million.

R&D

For the three months ended March 31, 2020, R&D expense was $3.0 million, compared to $2.6 million in 2019; an increase of $0.4 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 to meet customers' needs for technical solutions. Certain R&D costs are project-based and may be higher or lower in any given period.

Other expense

For the three months ended March 31, 2020 and 2019, Neo reported nominal consolidated other expense of $0.2 million and $0.1 million, respectively.

Finance cost, net

Finance cost, net, for the three months ended March 31, 2020 was $0.9 million, compared to $1.4 million in the corresponding period in 2019. Neo's finance cost in both years were primarily related to the derivative liability, which is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss. This liability is re-measured at each reporting period with the change in fair value recorded to finance cost, net. For the three months ended March 31, 2020, Neo also recorded the $2.2 million dividend paid to the non-controlling interest subject to the put option as a finance cost in accordance with IAS 32. Neo had nominal amounts of debt outstanding during the respective periods.

Income tax expense

For the three months ended March 31, 2020, Neo recorded income tax expense of $2.8 million on income from operations before taxes of $3.4 million. For the three months ended March 31, 2019, Neo recorded income tax expense of $2.8 million on income from operations before taxes of $14.8 million.

Neo's effective tax rate was 83.1% and 19.1% for the three months ended March 31, 2020 and 2019, respectively. The difference in effective tax rate is due primarily to the changes in mix and volume of earnings in different tax jurisdictions, the impact of foreign exchange fluctuations, and the non-deductible finance expense relating to the dividend paid to the non-controlling interest.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of $1.5 million for the three months ended March 31, 2020, compared to $2.7 million for the three months ended March 31, 2019. These capital projects included a combination of maintenance capital to assist with the continuing development and operations of Neo, growth capital to assist in adding new capacity or new products and strategic capital tied to longer-term strategic planning initiatives.

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 when the claimant is not required to specifically identify the manner in which the patent has allegedly been infringed; damages sought that are unspecified, unsupportable, unexplained or uncertain; discovery not having been started or still incomplete; the complexity of the facts that are in dispute (e.g., the analysis of the patent and a comparison to the activities of Neo is a 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 Courts have ruled that certain of Neo Chemicals & Oxides (Europe) Ltd.'s ("**Neo C&O (Europe)**") products infringed four expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1("**846**"), European patent #0605274 ("**274**"), and European patent #0955267 B1 (“**267**”). Neo C&O (Europe) filed an appeal in each of the four infringement actions and the appeals are still pending with respect to 846, 274 and 267. Neo C&O (Europe) withdrew its appeal of the 984 infringement judgment after Rhodia withdrew part of its infringement claim in this case. Neo C&O (Europe) was ordered to provide information related to the calculation of damages, but as yet there has been no determination of damages in any of the German infringement lawsuits.

Neo C&O (Europe) challenged the validity of patents 984, 846 and 274 before the German Federal Patent Court, which upheld patents 984 and 846, but invalidated patent 274. Both Neo C&O (Europe) and Rhodia appealed the rulings of the German Federal Patent Court to the German Supreme Court. The German Supreme Court has upheld the validity of patents 984, 846 and 274 but narrowed the scope of all three patents. Neo C&O (Europe) also filed an action challenging the validity of 267, which is still pending before the German Federal Patent Court.

Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed two unexpired patents, European patent # 1527018 and European patent #2007682. These actions are still pending with a trial date scheduled for July 2, 2020.

In December 2017, the Regional Court of Mannheim (Germany) determined that certain of Neo C&O (Europe)'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 C&O (Europe) has appealed the decision. In January 2019, the Federal Patent Court in Munich revoked the German designation of patent 338. The Higher Regional Court of Karlsruhe granted Neo C&O (Europe)'s request for a stay of the injunction, subject to the requirement that Neo provide financial security. Rhodia has appealed the invalidation of patent 338 by the German Federal Patent Court and the appeal is pending.

In April 2018, the UK Court determined that certain of Neo C&O (Europe)'s products infringed the equivalent UK patent 338. Neo C&O (Europe) appealed the trial court judgment of infringement but in October of 2019 the judgment of infringement was affirmed. There has been no determination of damages yet in this case.

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

On September 26, 2018, the PRB again ruled in favor of ZAMR by invalidating all product claims associated with patent ZL 200710146613.6, held by Daiichi Kigenso Kagaku Kogyo Co. ("**DKKK**"). The PRB upheld the validity of

Claim 4, which is a method claim. On October 24, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by DKKK and Rhodia Operations alleging infringement of patent ZL 200710146613.6. On November 22, 2019, the Shandong Higher Court reversed the ruling of the Zibo Intermediate Court and ordered that the case be transferred to the Ji'nan Intermediate Court for a trial on alleged infringement of Claim 4.

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

On March 4, 2019, the PRB ruled in favor of ZAMR by invalidating all patent claims associated with patent ZL 02822106.0, which is equivalent to European Patent 338. Solvay Japan has appealed this decision.

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

Patent Reference	**Jurisdiction of Claim**	**Specified Damages by Claimant**
Chinese patent ZL 03817110.4	China	$3.0 million
Chinese patent ZL 200710146613.6	China	$2.3 million
European patent 0863846 B1	Germany	
European patent 0735984 B1	Germany	$8.7 million
European patent 0605274 B1	Germany	
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 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified

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

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

Neo intends to defend itself vigorously in all cases. In light of the inherent uncertainties in litigation there can be no assurance that the ultimate resolution of these matters will not significantly exceed the 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, thus highlighting trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. Neo believes that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of issuers. Neo's management also uses non-IFRS financial measures 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 (gain) loss, share and value-based compensation, impairment of long-lived assets, and other non-recurring costs (recoveries);

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

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

"**Adjusted OIBDA**" is defined as OIBDA before share and value-based compensation, impairment of long-lived assets, and other non-recurring costs (recoveries);

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

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

"**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 months ended March 31, 2020 and 2019:

($000s, except volume)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Change	%
Operating income	**$ 5,007**	**$ 16,239**	**$ (11,232)**	(69.2)%
Add back:				
Depreciation and amortization included in Costs of Sales	2,720	2,410	310	
Depreciation and amortization included in operating expenses	2,036	1,985	51	
OIBDA	**9,763**	**20,634**	**(10,871)**	(52.7)%
Share and valued-based compensation (1)	(118)	(2,199)	2,081	
Other non-recurring costs (recoveries) (2)	—	(1,949)	1,949	
Adjusted OIBDA	**$ 9,645**	**$ 16,486**	**$ (6,841)**	(41.5)%
Adjusted OIBDA margin	10.6%	15.2%		
Revenue	$ 90,697	$ 108,530	$ (17,833)	(16.4)%
Sales volume (tonnes)	3,303	3,607	(304)	(8.4)%

Notes:

(1) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation expense/(recovery) of $109 and $(1,809) are included in selling, general, and administration expenses for the three months ended March 31, 2020 and three months ended March 31, 2019, respectively. Neo has removed both the share and value-based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(2) These represents primarily legal, professional advisory fees and other transaction costs recovered with respect to non-operating capital structure related transactions. Neo has removed these charges to provide comparability with historic periods.

Adjusted OIBDA was $9.6 million or 10.6% of revenue for the three months ended March 31, 2020, compared to $16.5 million or 15.2% of revenue for the three months ended March 31, 2019; a decrease of $6.8 million or 41.5%.

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:

($000s)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net income	**$ 518**	**$ 12,227**
Add back (deduct):		
Finance cost, net	945	1,382
Income tax expense	2,842	2,835
Depreciation and amortization included in Costs of Sales	2,720	2,410
Depreciation and amortization included in operating expenses	2,036	1,985
EBITDA	**9,061**	**20,839**
Adjustments to EBITDA:		
Equity loss (income) in associates	58	(238)
Other expense (1)	194	126
Foreign exchange loss (gain) (2)	450	(93)
Share and value-based compensation recovery (3)	(118)	(2,199)
Other non-recurring recoveries (4)	—	(1,949)
Adjusted EBITDA	**$ 9,645**	**$ 16,486**
Adjusted EBITDA Margins	*10.6%*	*15.2%*
Less:		
Capital expenditures	1,502	2,665
Free Cash Flow	**$ 8,143**	**$ 13,821**
Free Cash Flow Conversion (5)	84.4%	83.8%

Notes:

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

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

(3) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation expense/(recovery) of $109 and $(1,809) are included in selling, general, and administration expenses for the three months ended March 31, 2020 and three months ended March 31, 2019, respectively. Neo has removed both the share and value-based compensation expense from EBITDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

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

(5) Calculated as Free Cash Flow divided by Adjusted EBITDA.

Reconciliation of Net Income to Adjusted Net Income:

($000s)	Three Months Ended March 31,	
	2020	**2019**
Net income	**$ 518**	**$ 12,227**
Adjustments to net income:		
Foreign exchange loss (gain) [(1)]	450	(93)
Share and value-based compensation recovery [(2)]	(118)	(2,199)
Other non-recurring recoveries [(3)]	—	(1,949)
Other items included in other expense [(4)]	120	—
Tax impact of the above items	(101)	154
Adjusted net income	**$ 869**	**$ 8,140**
Attributable to:		
Equity holders of Neo	$ 714	$ 8,160
Non-controlling interest	$ 155	$ (20)
Weighted average number of common shares outstanding:		
Basic	37,739,299	39,641,879
Diluted	37,819,678	39,964,500
Adjusted earnings per share attributable to equity holders of Neo:		
Basic	$ 0.02	$ 0.21
Diluted	$ 0.02	$ 0.20

Notes:

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

(2) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation expense/(recovery) of $109 and $(1,809) are included in selling, general, and administration expenses for the three months ended March 31, 2020 and three months ended March 31, 2019, respectively. Neo has removed both the share and value-based compensation expense from net income to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(3) These represents primarily legal, professional advisory fees and other transaction costs recovered with respect to non-operating capital structure related transactions. Neo has removed these charges to provide comparability with historic periods.

(4) Represents certain other transactions that Neo has removed from net income 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

($000s, except volume)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Change	%
Operating income	**$ 5,539**	**$ 9,481**	**$ (3,942)**	(41.6)%
Add back:				
Depreciation and amortization included in costs of sales	788	569	219	
Depreciation and amortization included in operating expenses	1,425	1,373	52	
OIBDA	**7,752**	**11,423**	**(3,671)**	(32.1)%
Share and value-based compensation [1]	(37)	(494)	457	
Adjusted OIBDA	**$ 7,715**	**$ 10,929**	**$ (3,214)**	(29.4)%
Adjusted OIBDA margin	20.0%	23.0%		
Revenue	$ 38,526	$ 47,555	$ (9,029)	(19.0)%
Sales volume (tonnes)	1,271	1,445	(174)	(12.0)%

Notes:

(1) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation expense/(recovery) of $37 and $(579) are included in selling, general, and administration expenses for the three months ended March 31, 2020 and three months ended March 31, 2019, respectively. Neo has removed both the share and value-based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

For the three months ended March 31, 2020, revenue in the Magnequench segment was $38.5 million, compared to $47.6 million in the three months ended March 31, 2019; a decrease of $9.0 million or 19.0%. For the three months ended March 31, 2020, volume decreased to 1,271 tonnes, compared to 1,445 tonnes in the same period in 2019; a decrease of 12.0%. Generally, the differing rates of change for revenue and volumes are primarily attributed to changes in commodity input material prices and, to a lesser extent, product mix. Magnequench has material pass-through agreements with the vast majority of its customers, which enables Magnequench to pass through changes in material input costs into selling price on a lagged basis.

Operating income for the three months ended March 31, 2020 was $5.5 million, a decrease of $3.9 million when compared to the three months ended March 31, 2019.

For the three months ended March 31, 2020, volumes in the Magnequench segment were adversely affected by extended customer shutdowns and slowdowns, primarily for customers in China, related to the COVID-19 pandemic. Magnequench's products are ultimately destined across the entire global market, but the first-level supply partner is often in China and the Asian region. Accordingly, the impact of COVID-19 was felt by Magnequench over the majority of the quarter.

For the three months ended March 31, 2020, Adjusted OIBDA was $7.7 million, a decrease of $3.2 million compared to the same period of the prior year. Sales volumes, and their impact on margins and overhead absorption, were the largest contributor to the decrease in Adjusted OIBDA with other impacts from mix, price reductions, timing of certain operational activities, changes in foreign exchange rates, and timing of pricing pass-through mechanics on material inputs.

6.2 Chemicals & Oxides

($000s, except volume)	Three Months Ended March 31,			
	2020	**2019**	**Change**	**%**
Operating income	**$ 2,974**	**$ 6,626**	**$ (3,652)**	(55.1)%
Add back:				
Depreciation and amortization included in costs of sales	997	778	219	
Depreciation and amortization included in operating expenses	387	386	1	
OIBDA	**4,358**	**7,790**	**(3,432)**	(44.1)%
Share and value-based compensation [1]	55	(802)	857	
Adjusted OIBDA	**$ 4,413**	**$ 6,988**	**$ (2,575)**	(36.8)%
Adjusted OIBDA margin	13.2%	16.0%		
Revenue	$ 33,538	$ 43,573	$ (10,035)	(23.0)%
Sales volume (tonnes)	1,935	2,135	(200)	(9.4)%

Notes:

(1) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation expense/(recovery) of $46 and $(774) are included in selling, general, and administration expenses for the three months ended March 31, 2020 and three months ended March 31, 2019, respectively. Neo has removed both the share and value-based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

For the three months ended March 31, 2020, revenue in the C&O segment was $33.5 million, compared to $43.6 million in 2019; a decrease of $10.0 million or 23.0%. Operating income for the three months ended March 31, 2020 decreased to $3.0 million from $6.6 million in 2019; a decrease of $3.7 million or 55.1%.

In the three months ended March 31, 2020, three-way automotive catalyst volumes continued to show growth year-over-year despite the general slowdown in China and in the automotive markets from COVID-19. Diesel catalyst sales also showed growth year-over-year, as the previous two-year decline of legacy diesel products has largely ended while newer formulations of diesel catalyst products are driving new growth. Rare earth separation was adversely impacted by the continuing decline of rare earth commodity prices, which led to a lagging impact of higher-cost inventory relative to current selling prices and product mix. For the three months ended March 31, 2019, the C&O segment benefited from the timing of some high-value spot sales orders, which did not repeat in three months ended March 31, 2020.

For the three months ended March 31, 2020, Adjusted OIBDA in the C&O segment was $4.4 million, compared to $7.0 million in 2019; a decrease of $2.6 million or 36.8%.

6.3 Rare Metals

($000s, except volume)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Change	%
Operating (loss) income	**$ (177)**	**$ 157**	**$ (334)**	(212.7)%
Add back:				
Depreciation and amortization included in costs of sales	935	1,063	(128)	
Depreciation and amortization included in operating expenses	140	142	(2)	
OIBDA	**898**	**1,362**	**(464)**	(34.1)%
Share and value-based compensation (1)	13	(187)	200	
Adjusted OIBDA	**$ 911**	**$ 1,175**	**$ (264)**	(22.5)%
Adjusted OIBDA margin	4.5%	5.5%		
Revenue	$ 20,450	$ 21,531	$ (1,081)	(5.0)%
Sales volume (tonnes)	142	118	24	20.3 %

Notes:

(1) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation expense/(recovery) of $8 and $(172) are included in selling, general, and administration expenses for the three months ended March 31, 2020 and three months ended March 31, 2019, respectively. Neo has removed both the share and value-based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

For the three months ended March 31, 2020, revenue in the Rare Metals segment was $20.5 million, compared to $21.5 million in the prior year; a decrease of $1.1 million or 5.0%. Operating loss for the three months ended March 31, 2020 was $0.2 million, a decrease of $0.3 million, compared to operating income of $0.2 million in the same period in 2019.

The operating loss in the three months ended March 31, 2020 was driven by selling of higher cost historical inventory on hand for tantalum-based products. Over the past twelve months, the Rare Metals segment had considerable tantalum and niobium raw material in the production system, so when material prices change, there is a lead-lag impact into current period results as the operation is processing and selling material on hand purchased in a prior period. The majority of the higher-cost historical raw material has been used in production with a small amount remaining at the end of the quarter. In addition, the Rare Metals segment has been impacted by a general slowdown in its gallium trichloride volumes and margins.

For the three months ended March 31, 2020, Adjusted OIBDA in the Rare Metals segment was $0.9 million, compared to $1.2 million in 2019; a decrease of $0.3 million or 22.5%.

7. Summary of Consolidated Quarterly Results

($000s, except for earnings per share information)	2020	2019			2018			
	Q1	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Revenue	**$ 90,697**	**$ 94,553**	**$102,645**	**$101,736**	**$108,530**	**$109,361**	**$114,216**	**$110,433**
Net income attributable to equity holders of Neo	**363**	**4,639**	**3,944**	**2,090**	**12,247**	**4,285**	**8,669**	**19,174**
Basic EPS	0.01	0.12	0.10	0.05	0.31	0.11	0.22	0.48
Diluted EPS	0.01	0.12	0.10	0.05	0.31	0.11	0.21	0.47
Operating income	**5,007**	**7,014**	**8,399**	**5,850**	**16,239**	**6,224**	**10,890**	**12,269**
Add back:								
Depreciation and amortization included in costs of sales	2,720	2,656	2,546	2,353	2,410	2,352	2,404	2,475
Depreciation and amortization included in operating expenses	2,036	2,062	1,971	2,014	1,985	1,716	1,658	1,722
OIBDA	**9,763**	**11,732**	**12,916**	**10,217**	**20,634**	**10,292**	**14,952**	**16,466**
Add back:								
Share and value-based compensation (1)	(118)	443	153	773	(2,199)	782	1,780	1,392
Impairment of long-lived assets (2)	—	—	—	1,014	—	—	—	—
Other non-recurring costs (recoveries) (3)	—	305	(283)	—	(1,949)	2,161	—	—
Adjusted OIBDA	**$ 9,645**	**$ 12,480**	**$ 12,786**	**$ 12,004**	**$ 16,486**	**$ 13,235**	**$ 16,732**	**$ 17,858**
Adjusted OIBDA margin	*10.6%*	*13.2%*	*12.5%*	*11.8%*	*15.2%*	*12.1%*	*14.6%*	*16.2%*

Notes:

(1) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Neo has removed both the share and value-based compensation expense from OIBDA to provide comparability with historic periods and to treat it consistently with the share-based awards that they are intended to replace.

(2) The $1.0 million impairment in the Rare Metals segment represents impairment of property, plant and equipment and other assets related to the closure of NRM Utah that will not be utilized as a result of the closure.

(3) These represents primarily legal, professional advisory fees and other transaction costs incurred/(recovered) with respect to non-operating capital structure related transactions. In 2019, this also includes some restructuring costs related to management team changes in one of Neo's subsidiaries and the purchase price fair value accounting adjustment related to the acquisition of SAMAG. Neo has removed these charges to provide comparability with historic periods.

8. Liquidity and Capital Resources

Three months ended March 31, 2020 compared to three months ended March 31, 2019:

	Three Months Ended March 31,	
($000s)	**2020**	**2019**
Cash flow:		
Cash (used in) provided by operating activities	$ (1,376)	$ 9,229
Cash used in investing activities	(1,502)	(2,489)
Cash used in financing activities	(5,220)	(2,377)

Financial position - as at	**March 31, 2020**	**December 31, 2019**
Cash and cash equivalents	$ 75,964	$ 84,735
Restricted cash	4,048	4,185
Property, plant and equipment	92,335	94,490
Total assets	521,372	531,231
Bank advances and other short-term debt	1,205	54

As of March 31, 2020, Neo had cash and cash equivalents of $76.0 million plus restricted cash of $4.0 million, compared to $84.7 million plus $4.2 million as at December 31, 2019. Neo paid $2.8 million in dividends to its shareholders, $2.3 million to its non-controlling interest, and purchased $1.0 million of its shares under the Bid program in the three months ended March 31, 2020. In addition, Neo has approximately $6.0 million available under its credit facilities with $1.2 million 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, 2019 were the following:

Inflows

- $9.0 million cash from operations before net change in working capital; and
- $1.2 million in advances from short-term debts;

Outflows

- $7.8 million net change in working capital;
- $2.8 million of dividends paid to shareholders;
- $2.3 million of dividends paid to the non-controlling interest;
- $1.5 million of other capital spending;
- $1.0 million on the repurchase of Neo's common shares; and
- $2.6 million of income taxes paid.

Cash Provided by (Used in) Operating Activities

Net cash used in operating activities was $1.4 million during the three months ended March 31, 2020, compared to net cash provided by operating activities of $9.2 million for the three months ended March 31, 2019. Lower cash flow from operating activities was primarily due to lower operating performance in the three months ended March 31, 2020.

The $7.8 million net change in working capital for the three months ended March 31, 2020, was primarily attributable to the increase in prepaid expenses, the decrease in accounts payable, and accrued charges offset by the decrease in inventory. The decrease in inventory is primarily attributable to operational improvements focused on lowering inventory levels, lower revenue levels, and lower material pricing.

Cash Used in Investing Activities

For the three months ended March 31, 2020, net cash used in investing activities was $1.5 million, compared to $2.5 million in the three months ended March 31, 2019. The cash used in investing activities was primarily related to capital projects performed at the Zibo, Tianjin and Silmet facilities. These capital projects included a combination of maintenance capital to assist with the continuing development and operations of Neo, growth capital to assist in adding new capacity or new products, and strategic capital tied to longer-term strategic planning initiatives.

Cash Used in Financing Activities

Net cash used in financing activities during the three months ended March 31, 2020 was $5.2 million, compared to $2.4 million in 2019. Neo distributed $2.8 million in dividends to its shareholders and $2.3 million to non-controlling interest partners and spent $1.0 million on the repurchase of common shares. The cash used was netted with the $1.2 million of bank advances in Germany. In the three months ended March 31, 2019, Neo distributed $2.9 million in dividends to its shareholders and spent $0.9 million on the repurchase of common shares. The cash used was netted with the $1.7 million of bank advances in Germany.

($000s)

Cash and cash equivalents by Country as at	**March 31, 2020**	**December 31, 2019**
China (including Hong Kong)	$ 26,131	$ 35,234
Estonia	3,592	6,569
United States	12,667	11,698
Canada	3,902	9,687
Japan	3,438	2,501
United Kingdom	6,177	4,546
Germany	3,897	3,587
Singapore	7,413	4,122
Barbados	584	1,481
Thailand	7,075	4,021
Cayman Islands	5	2
Other	1,083	1,287
Total cash and cash equivalents	**$ 75,964**	**$ 84,735**

Approximately $7.5 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. 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 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.

	Payments Due by Period				
($000s)	**1 year**	**2 - 3 years**	**4 - 5 years**	**Thereafter**	**Total**
Bank advances and other short-term debts	$ 1,205	$ —	$ —	$ —	1,205
Accounts payable and other accrued charges	51,610	—	—	—	51,610
Derivative liability (1)	10,575	—	—	—	10,575
Provisions (2)	2,020	3,134	—	—	5,154
Lease obligations (3)	1,681	2,043	668	119	4,511
Other liabilities	41	1,517	—	—	1,558
Total	**$ 65,927**	**$ 6,694**	**$ 668**	**$ 119**	**$ 73,408**

Notes:

(1) Represents the fair value of the put option on shares of the remaining shareholder of Buss & Buss.

(2) 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 and JAMR facility.

(3) Represents the present value of Neo's lease obligations for office space, land and office equipment.

As at March 31, 2020, Neo had $76.0 million of cash and cash equivalents and approximately $4.0 million of restricted cash held as collateral against Letters of Credit and the Silmet NORM provision. 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, 2019, Neo announced that the TSX has accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**Bid**") for up to 1,982,517 of its issued and outstanding common shares. In connection with the Bid, Neo has entered into an automatic share purchase plan with its designated broker to allow for purchases of its shares (the "**Share Purchase Plan**"). The Share Purchase Plan is considered an "automatic plan" for purposes of applicable Canadian securities laws. Under the Share Purchase Plan, Neo's broker may purchase shares on any trading day during the Bid, including during self-imposed trading blackout periods. The price that Neo will pay for any shares purchased under the Bid will be the prevailing market price at the time of purchase. Any shares purchased by Neo will be canceled. The Share Purchase Plan expired on March 23, 2020.

For the three months ended March 31, 2020, Neo repurchased and canceled 126,200 shares for a total consideration of $1.0 million. For the three months ended March 31, 2019, Neo repurchased and canceled 99,623 shares for a total consideration of $0.9 million.

11. Subsequent Events

Dividends payable to equity holders of Neo

On May 12, 2020, the Board of Directors declared a quarterly dividend of Cdn $0.10 per common share payable in cash on June 26, 2020, to common shareholders of record at the close of business on June 17, 2020.

12. Off-Balance Sheet Arrangements

As of March 31, 2020, Neo's only off-balance sheet arrangements are purchase obligations.

13. Significant Management Judgment in Applying Accounting Policies

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

Estimates and underlying assumptions are reviewed on an ongoing basis. 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. On adoption of IFRS 16, Neo has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options.

For a discussion about the significant estimates used in determining the carrying value of inventory, deferred tax assets, useful lives of depreciable assets, provisions, impairment of tangible and intangible assets, defined benefit pension liability, fair value of financial instruments, share-based compensation and expected credit losses, please refer to the MD&A dated March 11, 2020. Neo cautions readers that the actual results could differ materially from those estimates and assumptions.

Given the magnitude and duration of the spread of the COVID-19 pandemic and the negative impact it already has on the global economy and financial markets, Neo has reviewed the estimates, judgments and assumptions used in the preparation of its financial statements, including with respect to the determination of whether indicators of impairment exists for its assets and cash generating units, the measurement of its expected credit losses, the net realizable value of inventory, and the fair value of the derivative liability.

Neo has determined that no significant revisions to such estimates, judgments or assumptions were required for the three months ended March 31, 2020. Revisions may be required in future periods if the negative impacts of COVID-19 are greater than currently anticipated. The COVID-19 pandemic, the measures taken by governments of countries affected and the resulting economic impact may adversely affect Neo's financial performance, cash flows, and financial position, as well as that of its customers in future periods.

14. Related Party Transactions and Balances

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

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

Transactions with associates

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.

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

For the three months ended March 31, 2020, Neo purchased $0.4 million worth of compounds from TMT, purchased metals and received services from Keli amounting to $8.5 million, and received services from GQD amounting to $0.8 million. For the three months ended March 31, 2020, Neo sold Magnequench Powders and performed services, amounting to $0.7 million to TMT.

For the three months ended March 31, 2019, Neo purchased $0.4 million worth of compounds from TMT, purchased metals and received services from Keli amounting to $9.9 million, and received services from GQD amounting to $0.2 million. For the three months ended March 31, 2019, Neo sold Magnequench Powders and performed services amounting to $1.1 million to TMT.

Transactions with joint venture partners

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. No purchases were made in the three months ended March 31, 2020 and 2019.

Neo also has occasionally purchased and sold products from and to Ganzhou Qian Dong Rare Earth Group Co. Ltd. ("**Qian Dong**") and Toda Kogyo Corp. ("**Toda**"). For the three months ended March 31, 2020, there were no purchases from Qian Dong. Sales to Toda for the three months ended March 31, 2020 were $0.1 million. For the three months ended March 31, 2019, purchases from Qian Dong were $0.3 million. Sales to Toda for the three months ended March 31, 2019 were $0.1 million.

Transactions with other related parties

Neo, through one of its subsidiaries in China, Magnequench Magnetics (Chu Zhou) Co., Ltd. ("**MQCZ**"), has occasionally sold products to Atatsu Co., Ltd. ("**Atatsu**") for resale to third party customers. Atatsu is controlled by members of MQCZ's key management personnel. For the three months ended March 31, 2020, sales to Atatsu were $0.1 million.

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

	Three Months Ended March 31,	
	2020	**2019**
Sale of goods and services to related parties	$ 890	$ 1,259
Purchase of goods and services from related parties	9,641	10,764

($000s)	March 31, 2020	December 31, 2019
Trade balances:		
from related parties	$ 626	$ 348
due to related parties	(5,202)	(5,215)
Total	**$ (4,576)**	**$ (4,867)**

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 and share-based compensation expenses.

Neo's short-term employee benefits are as follows:

	Three Months Ended March 31,	
	2020	2019
Directors	$ 97	$ 71
Key Executive Management	904	898
Total	$ 1,001	$ 969

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

	Three Months Ended March 31,	
	2020	2019
Directors	$ (265)	$ (75)
Key Executive Management	34	(300)
Total	$ (231)	$ (375)

In the first quarter of 2019, there was a revision of the vesting period from the previous estimate for Options and RSUs pursuant to the termination of the Luxfer Transaction. Neo subsequently revised and adjusted the recognized share-based compensation expense on a cumulative basis, which resulted in a recovery of share-based compensation expense being recorded in the unaudited interim condensed consolidated statements of profit or loss in the first quarter of 2019. No similar revision was made for the three months ended March 31, 2020.

15. Financial Instruments and Risk Management

The following table presents financial assets and liabilities measured at fair value in the unaudited interim 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 unaudited interim condensed consolidated statements of financial position as at March 31, 2020, are grouped into the fair value hierarchy as follows:

($000s)	**Level 1**	**Level 2**	**Level 3**
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss.	$ —	$ —	$ 10,575

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, 2020.

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

Commodity price risk

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

Neo's sales and profitability are determined principally by the pricing of the advanced industrial materials it produces, and, to a lesser extent, by the price of natural gas and other supplies used in its production process. The prices of the rare earth products are influenced by the price and demand of the end products that Neo's products support, including automotive, electronics and clean energy technologies. A significant decrease in the global demand for these products may have a material adverse effect on Neo's business. Neo does not have hedging contracts for 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 U.S. dollar against the functional currencies of its foreign subsidiaries, including the Euro, the Canadian dollar, the Renminbi, the Thai baht and the Japanese Yen, when Neo translates its foreign subsidiaries' financial statements into U.S. dollars for inclusion in its consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive income (loss) and a separate component of equity. Any increase (decrease) in the value of the U.S. dollar against those foreign currencies results in unrealized foreign currency translation losses (gains) with respect to assets acquired in, liabilities assumed from, intercompany balances with and results of operations from the foreign subsidiaries. Therefore, Neo may experience a negative impact on its comprehensive income (loss) and stockholders' equity with respect to its holdings in those subsidiaries as a result of foreign currency translation. Neo generally does not hedge against the risk that it may incur non-cash losses upon the translation of the financial statements of its foreign subsidiaries into U.S. dollars.

Credit risk

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

Under IFRS 9, Neo establishes a loss allowance using the expected credit loss impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at March 31, 2020, the loss allowance was approximately $0.2 million. The estimated credit losses is included in selling, general and administrative expenses in the unaudited interim 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, 2020, 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.

16. Recent Accounting Pronouncements

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

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

The new guidance will be effective for annual periods starting on or after January 1, 2022 and to be applied retrospectively, with earlier application permitted.

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

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

Disclosure controls and procedures

Neo's Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") are responsible for establishing and maintaining disclosure controls and procedures for Neo. Neo maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis. The CEO and CFO have evaluated the design and operating effectiveness of Neo's disclosure controls and procedures ("**DC&P**") as at March 31, 2020 and based on the evaluation, the CEO and CFO have concluded that the DC&P were effective.

Internal controls over financial reporting

Neo's internal controls over financial reporting ("**ICFR**") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Neo's management is responsible for establishing and maintaining adequate ICFR for Neo. National Instrument 52-109 of the Canadian Securities Administrators requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for Neo and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to Neo's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. There have been no material changes during the quarter ended March 31, 2020. Neo's management, under the supervision of the CEO and CFO, has evaluated the design and operating effectiveness of Neo's ICFR based on the Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As at March 31, 2020, management assessed that Neo's ICFR were effective.

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

On August 26, 2019, Neo’s newly formed wholly owned subsidiary, MQCZ had acquired the assets of SAMAG. As of the date of this report, Neo management has not formally documented and evaluated the new entity’s internal controls over financial reporting, as Neo is exempt for the first year of acquisition under Part 3.3 of National Instrument 52 - 109. Therefore, management has excluded from their scope a review of the controls, policies and procedures of MQCZ in relation to its certification of Interim Filings, FORM 52-109F2, paragraph 5(b), for the three months ended March 31, 2020. Management expects to complete its formal documentation and evaluation of both the design and operating effectiveness of internal controls over financial reporting of MQCZ by September 30, 2020.

18. 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 11, 2020 and Neo's 2019 Annual Information Form ("**AIF**").

19. Outstanding Shares Data

Class of Equity Security	**Numbers Outstanding**
Common Shares	37,672,756
Stock Options*	1,158,712
Restricted Share Units & Performance Stock Units	1,018,847

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

The number of common shares outstanding as at May 13, 2020 is 37,672,756.

20. Additional Information

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