neo Performance Materials

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2024

Management's Discussion and Analysis

1. Introduction

Neo Performance Materials Inc. ("**Neo**", the "**Company**" or the "**Group**"), together with its direct and indirect subsidiaries, is a public company listed on the Toronto Stock Exchange ("**TSX**") under the ticker symbol 'NEO'. The Company was incorporated on September 12, 2017, under the *Business Corporations Act* (Ontario). Neo's registered and head office is located at 121 King Street West, Suite 1740, Toronto, Ontario, Canada, M5H 3T9.

This management's discussion and analysis ("**MD&A**"), prepared as of March 18, 2025, relates to the financial condition and results of operations of Neo together with its subsidiaries, as at December 31, 2024 and for the year then ended, and is intended to supplement and complement Neo's audited consolidated financial statements for the year ended December 31, 2024 and the notes thereto (the "**financial statements**"). Readers are cautioned that the MD&A contains forward-looking statements about expected future events and financial and operating performance of the Company, and that actual events may vary from management's expectations. Readers are encouraged to read the Cautionary Statement on Forward Looking Information below and to consult Neo's financial statements and corresponding notes to the financial statements as well as Neo's most recent Annual Information Form for the year ended December 31, 2024, dated March 18, 2025 ("**2024 AIF**"), which are available on www.neomaterials.com and www.sedarplus.ca.

Certain prior period disclosures may have been reclassified for consistency with the current period presentation. This MD&A has been prepared based upon information available to management as of March 18, 2025. This MD&A should not be considered all-inclusive, as it does not include changes that may occur as a result of economic, political, environmental and other events that may occur (or not occur) in the future and affect the operations and financial results of Neo.

Unless otherwise noted, all amounts in this MD&A are expressed in thousands of United States dollars.

2. Cautionary Statement on Forward-Looking Information

This MD&A 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 MD&A, 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 information in this MD&A include, but are not limited to: expectations regarding certain of Neo's future results and information, including, among other things, revenue, expenses, growth prospects, capital expenditures, and operations; risk factors relating to national or international economies, geopolitical risk and other risks present in the jurisdictions in which Neo, its customers, its suppliers, and/or its logistics partners operate, and; statements with respect to current and future market trends that may directly or indirectly impact sales and revenue of Neo, including but not limited to the price of rare earth elements; 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 and changes in rare earth prices; impact of recently adopted accounting pronouncements; risk factors relating to intellectual property protection and intellectual property litigation; expectations regarding demand for fan motors and superalloys; expectations regarding the growth of superconductor materials; the closing and the anticipated timing thereof for the sale of the JAMR and ZAMR separation facilities together with the targeted return; anticipated completion and launch of Neo's new permanent magnet facility in Europe and related commercial production estimates, forecasted budget, commissioning and costs associated with the facility; Neo's requalified product portfolio, including the NAMCO product portfolio, and continued product qualification expected in 2025; anticipated final costs associated with the NAMCO project; expectations regarding tariffs; securing new automotive customer agreements for permanent magnet and emissions control facilities; expectations concerning the continued growth of the Magnequench project and improvements in C&O; expectations concerning any remediation efforts to Neo's design of its internal controls over financial reporting and disclosure controls and procedures; and Neo's 2025 guidance and the assumptions relating thereto.

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 risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information.

Additionally, Neo's 2025 guidance reflects Neo's expectations as to financial performance in 2025 based on assumptions which Neo believes to be reasonable as of the date of this MD&A, including but not limited to continued Magnequench growth, significant improvements in C&O, exiting lower-margin separation assets, strong hafnium demand despite pricing moderation, continued reduction in SG&A expenses, expectations regarding tariffs; securing new automotive customer agreements for permanent magnet and emissions control facilities; expectations concerning the continued growth of the Magnequench project and improvements in C&O. 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 filings available under Neo's profile at www.sedarplus.ca.

Information contained in forward-looking statements in this MD&A is provided as of the date hereof and Neo disclaims any obligation to update any forward-looking information, whether as a result of new information or future events or results, except to the extent required by applicable securities laws.

3. Non-IFRS Financial Measures

This MD&A refers to certain specified financial measures and ratios, including "**EBITDA**", "**Adjusted EBITDA**", "**Adjusted EBITDA Margin**", "**Adjusted Net Income**", "**Adjusted Earnings per Share**", "**Free Cash Flow**" and "**Free Cash Flow conversion**". These specified financial measures are not recognized measures under International Financial Reporting Standards ("**IFRS**") Accounting Standards as issued by the International Accounting Standards Board, do not have a standardized meaning prescribed by IFRS, and may not be comparable to similar measures presented by other companies. Rather, these specified financial measures ("**non-IFRS financial 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.

Specified financial measures such as non-IFRS financial measures and ratios 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 specified financial measures 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 specified financial measures such as non-IFRS financial measures and ratios in the evaluation of issuers. Neo's management also uses non-IFRS financial measures and ratios to facilitate operating performance comparisons from period to period. Readers are cautioned that these measures should not be construed as an alternative to their nearest or directly comparable financial measures determined in accordance with IFRS as an indication of Neo's financial performance.

Neo defines non-IFRS financial measures and ratios as follows:

"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 EBITDA" is defined as EBITDA before equity income (loss) in associates, other income (expense), foreign exchange (gain) loss, share and value-based compensation, impairment of long-lived assets, and other costs (recoveries). Adjusted EBITDA represents core operating performance of Neo's business excluding leverage, income tax and non-core accounting items. Management believes Adjusted EBITDA is a meaningful measure of Neo's operating performance because it excludes certain items included in the calculation of net income (loss) that may not be appropriate determinants of long-term operating performance.

"Adjusted EBITDA Margin" is defined as Adjusted EBITDA divided by revenue. Management believes Adjusted EBITDA Margin is a meaningful measure of Neo's ability to generate Adjusted EBITDA from revenue earned.

"Adjusted Net Income (Loss)" is defined as net income or loss before foreign exchange (gain) loss, share and value-based compensation, impairment of assets, other costs (recoveries), and other items included in other expense (income), net of the related tax effects. Management believes this is a meaningful measure as it adjusts for non-cash and certain non-recurring items to help communicate earnings on a sustainable basis.

"Adjusted Earnings per Share" is defined as Adjusted Net Income (Loss) attributable to shareholders of Neo divided by the weighted average number of common shares outstanding.

"Free Cash Flow" is defined as Adjusted EBITDA less capital expenditures. Management believes Free Cash Flow is a meaningful measure of Neo's ability to generate cash flow, after on-going obligations, to reinvest in growth and to fund dividends to shareholders of Neo.

"Free Cash Flow Conversion" is defined as Free Cash Flow divided by Adjusted EBITDA. Management believes Free Cash Flow Conversion is a meaningful measure of Neo's ability to convert earnings to Free Cash Flow.

For reconciliations of these non-IFRS financial measures to their nearest IFRS measure, refer to *Section 9.1 Adjusted EBITDA and Free Cash Flow* for a reconciliation of consolidated Net Income (Loss) under IFRS to reported Adjusted EBITDA and Free Cash Flow, and *Section 9.2 Reconciliations of Net Loss to Adjusted Net (Loss) Income* for a reconciliation of Net Income to Adjusted Net Income (Loss) and respective per share amounts.

4. Business Overview

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

As at December 31, 2024 Neo has approximately 1,800 employees and a global platform that includes 9 manufacturing facilities located in China, Germany, Canada, Estonia, the United Kingdom ("**UK**") and Thailand as well as one dedicated research and development ("**R&D**") centre in Singapore. On December 31, 2024, Neo divested its Quapaw, Oklahoma facility, whose financial performance is reflected in the financial results herein. Since its formation in 1994, Neo has leveraged its processing expertise to innovate and grow into a leading manufacturer of advanced industrial materials for specialty end markets. Neo is a leading commercial partner to some of the world's largest customers in the automotive, manufacturing, semiconductor, advanced electronic and specialty chemical industries. As a result, Neo is well positioned in markets that are forecast to see robust, long-term growth driven by multiple global macro trends, such as vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and super-alloys. Neo identifies growth markets driven by global macro trends and produces highly engineered industrial materials that are critical to the performance of applications in those markets. In addition to Toronto, Canada, Neo has offices in Greenwood Village, Colorado, United States; Singapore; and Beijing, China.

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

Magnequench

Neo's Magnequench segment manufactures bonded neodymium-iron-boron ("**NdFeB**") powders and bonded permanent magnets. With over thirty years of manufacturing experience, Magnequench is the world leader in the production of magnetic powders used in bonded and hot-deformed fully dense 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 various inputs. These powders are used in the production of bonded permanent magnets that are components in automotive motors, pumps, micro motors, traction motors, sensors and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight. Maqnequench's bonded magnet facilities include Korat in Thailand, Chuzhou and Tianjin in China, and SGTec in the UK. Magnequench is expanding into the sintered magnet market with a new European facility currently under construction and expected to be commissioned in 2025.

C&O

Neo's 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 midstream 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 emissions catalysts, permanent magnetics, consumer electronics, petroleum refining catalysts, medical devices, and wastewater treatment. Neo's C&O segment operates three facilities in China, two of which are expected to be sold in 2025, and a multi-building manufacturing campus in Sillamäe, Estonia (the "**Silmet facility**"), shared with Rare Metals.

Rare Metals

Neo's Rare Metals ("**RM**") 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. Rare Metal's facilities include the Silmet facility, a facility in Peterborough, Canada and in Sagard, Germany (Buss & Buss Spezialmetalle GmbH ("**Buss & Buss**")).

5. Select Financial Highlights

	Three Months Ended December 31,			Year Ended December 31,		
	2024	2023	2022	2024	2023	2022
Revenue						
Magnequench	$ 43,500	$ 54,827	$ 57,584	$ 176,649	$ 213,735	$ 277,412
C&O	43,606	55,552	58,767	146,516	235,929	248,011
Rare Metals	48,441	19,724	43,865	156,206	124,601	130,386
Corporate / Eliminations	(644)	(1,435)	(1,048)	(3,543)	(2,720)	(15,511)
Consolidated Revenue	**$ 134,903**	**$ 128,668**	**$ 159,168**	**$ 475,828**	**$ 571,545**	**$ 640,298**
Operating Income (Loss)						
Magnequench	$ 2,018	$ 2,675	$ 2,543	$ 10,123	$ 7,618	$ 30,538
C&O	27	2,622	852	(2,854)	4,088	22,176
Rare Metals	16,910	(5,597)	7,792	50,134	19,670	20,978
Corporate / Eliminations	(6,600)	(5,170)	(4,460)	(22,102)	(20,209)	(15,078)
Consolidated Operating Income	**$ 12,355**	**$ (5,470)**	**$ 6,727**	**$ 35,301**	**$ 11,167**	**$ 58,614**
Adjusted EBITDA						
Magnequench	$ 6,824	$ 5,950	$ 4,788	$ 25,528	$ 21,149	$ 40,172
C&O	1,350	3,218	2,614	4,924	9,306	28,324
Rare Metals	17,383	(2,200)	8,995	51,762	24,207	24,307
Corporate / Eliminations	(4,866)	(3,871)	(3,977)	(17,816)	(17,443)	(13,776)
Consolidated Adjusted EBITDA	**$ 20,691**	**$ 3,097**	**$ 12,420**	**$ 64,398**	**$ 37,219**	**$ 79,027**
Net (Loss) Income	**$ (12,037)**	**$ (1,129)**	**$ (7,162)**	**$ (13,016)**	**$ (8,391)**	**$ 26,418**
Attributable to:						
Equity holders of Neo	(12,050)	(1,367)	(7,291)	(12,946)	(8,442)	25,947
Non-controlling interest	13	238	129	(70)	51	471
(Loss) earnings per share attributable to equity holders of Neo						
Basic	$ (0.29)	$ (0.03)	$ (0.16)	$ (0.31)	$ (0.19)	$ 0.62
Diluted	$ (0.29)	$ (0.03)	$ (0.16)	$ (0.31)	$ (0.19)	$ 0.61
Adjusted Net (Loss) Income	**$ (4,880)**	**$ 901**	**$ (5,686)**	**$ 1,905**	**$ (975)**	**$ 31,756**
Attributable to:						
Equity holders of Neo	(4,893)	663	(5,815)	1,975	(1,026)	31,285
Non-controlling interest	13	238	129	(70)	51	471
Adjusted (loss) earnings per share attributable to equity holders of Neo:						
Basic	$ (0.12)	$ 0.02	$ (0.13)	$ 0.05	$ (0.02)	$ 0.75
Diluted	$ (0.12)	$ 0.02	$ (0.13)	$ 0.05	$ (0.02)	$ 0.74
Cash spent on property, plant and equipment and intangible assets	$ 12,077	$ 24,332	$ 6,372	$ 64,202	$ 41,743	$ 17,470
Cash taxes paid	$ 3,579	$ 2,089	$ 3,505	$ 22,411	$ 13,410	$ 12,352
Dividends paid to shareholders	$ 3,062	$ 3,335	$ 3,540	$ 12,330	$ 13,396	$ 13,401
Special dividend (1)	$ 7,967	$ —	$ —	$ 15,183	$ —	$ —
Repurchase of common shares under Normal Course Issuer Bid	$ —	$ 3,209	$ —	$ 2,250	$ 19,893	$ —
As at:						
Cash and cash equivalents				$ 85,489	$ 86,895	$ 147,491
Short-term debt, bank advances & other				$ 2,740	$ —	$ 17,288
Current & long-term debt				$ 68,796	$ 25,331	$ 30,632

(1) Special dividend paid to Buss & Buss' minority shareholder.

6. Business Updates

Significant developments and events that occurred in 2024 and through the date of this MD&A are summarized below. Additional information for certain matters below is included in Neo's 2024 AIF.

Business Updates

- ***European Permanent Magnet Facility Nearing Completion****:* Construction of Neo's European permanent magnet facility in Narva, Estonia (the "**PM facility**") remains on track, with construction completed for the core manufacturing building and all key equipment received. The scheduled launch for the facility remains on track, with customer qualification samples commencing production in early 2025, and large-scale commercial production expected to commence in 2026.

  This facility will position Neo as Europe's largest domestic sintered magnet supplier and a solution for customers seeking geographic diversity in their supply and compliance with the European Union's ("**EU**") Critical Raw Materials Act effective May 2024. Strategically located near Neo's Silmet rare earth separation facility, the European PM facility will meet demand for clean energy technologies, including electric vehicle motors and offshore wind turbines. Phase 1 will establish an initial capacity of 2,000 tonnes annually, with potential expansion to cumulatively 5,000 tonnes annually in Phase 2.

  Neo has spent $57.1 million on the facility as of December 31, 2024, with an expected Phase 1 total capital cost of $75.0 million before an EU grant reimbursement of 23% of eligible project costs. Neo received $5.6 million of EU grant reimbursement during the year ended December 31, 2024. In August 2024, Neo secured its first major contract for the facility with a Tier 1 European automotive supplier. In November 2024, Neo secured a $50.0 million credit facility from Export Development Canada ("**EDC**") to support facility construction and commissioning, with $25.0 million drawn as of December 31, 2024.

- ***Emissions Control Catalyst Plant Completed Under Budget***: In September 2024, Neo announced the opening of NAMCO, its new state-of-the-art emissions control catalyst facility in China. The relocated NAMCO facility is equipped with advanced infrastructure, transportation, and wastewater treatment capabilities and will benefit from an improved manufacturing layout, automation, and environmental management systems. The facility has requalified most of its product portfolio and is on track to finalize the remaining products in the first half of 2025. Total project spend is expected to be approximately $68.0 million or $7.0 million under budget. Neo has spent $49.8 million since project inception; with construction and commissioning complete, the remaining spend relates primarily to outstanding post-commissioning vendor payments. The NAMCO facility is partly funded through a $75.0 million credit facility from EDC, with $45.0 million drawn as of December 31, 2024.

- ***Asset Portfolio Rebalancing to Improve Quality of Earnings***: To focus on core assets and streamline Neo's global manufacturing footprint, Neo has entered into agreements to sell to Shenghe Resources Holding Co., Ltd. ("**Shenghe**") (i) 86% of the equity interest in JAMR and (ii) 88% of the equity interest in ZAMR to Shenghe, amended from the original agreement to sell 98% of the equity interest of ZAMR. The two transactions ("**sale of JAMR and ZAMR**") are expected to generate approximately RMB 209.1 million ($28.9 million) in aggregate cash proceeds. Following the completion of the sale of JAMR and ZAMR, Neo will hold a 9% interest in JAMR and a 10% interest in ZAMR. JAMR sales proceeds represent a 10.7x multiple on average trailing five-year EBITDA for the facility. The ZAMR facility was valued using an asset-based approach, as the facility was closed in the second quarter of 2024. Neo will execute an agreement securing the exclusive right to distribute JAMR's heavy rare earth products outside of China for an initial term of 5 years. This is expected to provide Neo's customers outside of China with continuity of supply. The sales are expected to close in the first half of 2025 after the completion of customary closing conditions, including local jurisdictional, administrative filings, registrations and approvals.

- ***Non-core Divestment - Sale of Quapaw Facility***: On December 31, 2024, Neo completed the sale of its 80% ownership interest in its Rare Metals facility located in Quapaw, Oklahoma to its former General Manager and co-founder. The cash sale of approximately $1.5 million represents a 9.0x multiple of the facility's Adjusted EBITDA for the trailing twelve months as of the announcement date. Importantly, the sale includes a seven-year arrangement wherein Quapaw will purchase gallium from, and transfer gallium scrap to, Neo's Peterborough facility.

- ***Neo maintains robust operating cash flow and a commitment to returning capital to shareholders***: As at December 31, 2024, Neo has $85.5 million in cash, offset by $68.8 million drawn from two EDC credit facilities and $2.7 million in bank advances, resulting in net cash of $14.0 million. For the year ended December 31, 2024, Neo generated $51.5 million in cash from operating activities, driven by strong income from operations and continued working capital improvements. The Company invested $64.2 million in capital expenditures, primarily at the PM and NAMCO facilities. Additionally, Neo returned capital to shareholders by paying $12.3 million in dividends, and repurchasing and cancelling 398,871 shares for $2.3 million, completing the normal course issuer bid ("**NCIB**"), which began in June 2023.
- ***Notable intellectual property litigation ruling***: In late February 2025, a court issued a judgment that provides that one of Neo's subsidiaries is liable for damages of approximately €10.3 million plus procedural interest of approximately €1.3 million (total $12.1 million) as of the date of the court's ruling. The judgment may be appealed by both parties within one month and is therefore not yet final. The damage award is less than the amount the Company had previously accrued. The European patent #1435338 has expired and has no impact on the Company's current products and earnings.
- ***Neo exceeds 2024 financial guidance and raises 2025 financial guidance***: Driven in part by the outperformance in Rare Metals, Neo delivered Adjusted EBITDA of $64.4 million for fiscal year 2024 which exceeded guidance. For fiscal year 2025, Neo is raising its previously communicated Adjusted EBITDA outlook to $55.0 million to $60.0 million.
- ***Strategic Review***: Neo continues to progress its previously announced Special Committee-led strategic review process, which includes the consideration of strategic alternatives and opportunities to maximize shareholder value. The Special Committee remains committed to advancing the strategic review process with Neo's financial advisors. There can be no assurance that the strategic review process will result in any transaction or other alternative, nor any assurance as to its outcome or timing. In parallel, management has continued to optimize the business, including divestment of non-core assets and improvements to operational performance.

7. Operating Segment Highlights

Magnequench

Magnequench delivered robust growth in 2024, with sales volumes increasing by 7.9% for the full year, driven by strong demand in bonded permanent magnets and bonded powders in traction motor applications. The segment continues to capitalize on key growth areas while optimizing cost efficiencies, leading to improved profitability. Significant developments and key performance drivers include:

- ***Launch of new European permanent magnet plant which remains on-track and on-budget;*** expected to be commissioned in 2025, the new facility will be a long-term growth catalyst for the business and a critical part of European supply chains producing specialized rare earth permanent magnets for use in electric vehicles, wind turbines, and other clean energy technologies.
- ***Bonded magnet sales delivered record volumes up 23% for the full year*** as the business continues to execute its strategy on moving up the value chain, leveraging decades of experience to successfully move from bonded powders to bonded magnets, with further potential to expand into assemblies by leveraging the capabilities of SGTec.
- ***Bonded powders in traction motors delivered growth and won next generation product platform*** as the business remains well-positioned with its current product offering, providing the only heavy rare-earth-free magnet on a traction motor platform, and securing an award for a new product platform in early 2024.
- ***Reduced conversion costs by 20% for the full year at its largest facility,*** after notable cost reductions taken in late 2023 and early 2024; as well as continued focus on increasing yield and driving process

efficiency. These efforts are being replicated across the other Magnequench facilities as operating teams share best practices.

- ***Adjusted EBITDA for 2024 increased by $4.4 million, or 21% versus the prior year***, and Adjusted EBITDA margin expanded 460 basis points demonstrating the value-add nature of Magnequench's product portfolio, and its ability to deliver strong margins even in a low rare earth pricing environment.

Chemicals & Oxides

While C&O faced challenges in rare earth separation, impacting earnings, the segment is taking tactical steps to drive growth and profitability. Automotive catalyst volumes were impacted by relocation of NAMCO and market conditions. The new emissions control catalyst facility is ramping up, positioning Neo for long-term success. The planned sale of the Chinese separation facilities remains on track, reinforcing the Company's shift to high-value-add downstream businesses. At the same time, the wastewater treatment business continues to gain momentum, supporting future growth. Significant developments and key performance drivers include:

- ***Emissions Catalyst volumes down 15% for the full year*** due to demand softness and new facility ramp-up*;* however, with the relocation, customer qualification, and production ramp-up complete at the new NAMCO facility, the emissions catalyst business is poised for growth and expanding its market share.
- ***Wastewater treatment business delivered record volumes up 46% for the full year*** as the business continues to grow its recurring customer base and pipeline of opportunities. The wastewater treatment business is an example of C&O's technical capabilities in developing new rare earth-based products providing growth opportunities in new markets.
- ***C&O rare earth separation business delivered negative $1.6 million gross margin in 2024*** amidst continued pressure from low rare earth prices. C&O is nearing completion of the sales of its two legacy separation facilities in China which will reduce its exposure to rare earth price volatility. The business continues to operate its European separation facility which is a strategic asset providing capacity and capability that is generally considered scarce outside of China.
- ***Adjusted EBITDA for 2024 declined by $4.4 million or 47% compared to the prior year*****,** as the business faced market headwinds through 2024 while facing short term disruption with the relocation and ramp of its NAMCO facility. After a transformative year, management believes the business is well-positioned for growth as well as expanding and stabilizing earnings.

Rare Metals

Rare Metals delivered another record year, with strong performance across all facilities. The primary factor influencing financial performance was its hafnium business. The whole segment delivered improved financial and operational performance through notable changes to its manufacturing strategy. Significant developments and key performance drivers include:

- ***Hafnium gross margins increased 76% for the full year***, as the business seamlessly executes securing long-term contracts at favourable prices while tactically securing inventory to support these contracts. As hafnium prices normalize, management anticipates a reduction in margins; however, the fundamentals of the hafnium business remain strong, and Rare Metals is well-positioned as the largest European recycler of hafnium.
- ***Closure of hydrometallurgical processing in Silmet, Estonia delivered measurable improvements***, as the facility shifted focus away from midstream toward downstream operations in December 2023, this delivered notable benefits in 2024 including improved operating efficiency (through higher machine utilization and yield), reduced working capital, and substantial improvement in operating margins.
- ***Gallium business strengthened its position in the supply chain, benefiting from regulatory tailwinds***, as Chinese export restrictions on gallium have created supply constraints outside of China. As one of the only gallium recycling operations in North America, Rare Metals has delivered volume and margin growth in

2024 by executing sourcing arrangements and expanded tolling arrangements to ensure that gallium produced, used, and recycled, stays within the Rare Metals' supply chain.

- ***Adjusted EBITDA for 2024 increased by $27.6 million or 114% versus the prior year***, reflecting Rare Metals' ability to capitalize on strong end-market demand, navigate a complex geopolitical environment, and execute its operational and commercial strategies.

8. Impact of Geopolitical and Trade Developments

8.1 Potential Impact of Ongoing Conflict with Russia in Ukraine

The actions of Russian military forces in Ukraine have escalated tensions between Russia and Ukraine, the EU, the North Atlantic Treaty Organization, the UK, the U.S., Canada and other countries. Several countries have imposed a series of sanctions targeting Russia, two separatist pro-Russian regions in Ukraine, and certain individuals, banks and corporations seen as allies to the administration in Russia. The Silmet facility sources the majority of its rare earth feedstock from a Russian supplier. Through to December 31, 2024, there has been no significant impact on Neo's operations.

With the assistance of external advisors with expertise in global sanctions, Neo continues to monitor the impact of sanctions on its business and its continued compliance including purchases and sales to entities that may have connections to Russia. Neo currently expects, but cannot be certain, that these sanctions will not materially affect its access to the inputs needed to operate the Silmet facility.

8.2 Potential Impact of China Export Restrictions

In August 2023, the Government of China announced an export control on gallium, which is one of the key outputs of the Peterborough facility, increasing prices by 20-30% for gallium produced outside of China. Subsequently, in December 2024, the Government of China announced an export ban on gallium sold into the U.S., causing a broader bifurcation of gallium pricing inside versus outside of China to over 70%. As expected, exports of gallium from China have declined from historical levels as market participants undergo licensing and approval process to export gallium. In addition, in October 2024, China released new regulations on the export control of civil-military dual-use items effective December 1, 2024. This regulation added further controls on the export of critical materials as China aims to strengthen national security by controlling exports of items with both civilian and military applications.

In December 2023, China adopted revisions to the Catalogue of Technologies Prohibited or Restricted from Exporting. This update included the addition of rare earth magnet technology, expanding the previous restrictions on extraction and separation technologies. These export restrictions are anticipated to create incremental barriers for new companies attempting to enter the rare earth magnet industry outside of China. In June 2024, China announced national level regulation aimed at further strengthening controls on rare earth supply and distribution. These regulations took effect on October 1, 2024, and management expects that certain elements of the regulation such as an improved traceability system will provide further stability, as well as environmental, social, and economic benefits for the rare earth industry.

8.3 Potential Impact from Global Tariffs and Industrial Policy Decisions

As a global company, Neo monitors the complex landscape of trade and industrial policy developments that directly influence its operational, commercial, and strategic decisions across various end markets. Policy changes announced or implemented in 2024 and into 2025, including new tariffs and sourcing requirements in the U.S. and E.U., may create both challenges and opportunities for Neo. Key developments include increased tariffs on critical minerals, electric vehicles, and permanent magnets imported from China, as well as E.U. regulations aimed at reducing reliance on a single foreign supplier for key materials.

Though uncertainty remains, Neo is positioned to benefit from these changes due to its European-based hafnium and tantalum production and recycling capabilities, its magnet manufacturing facilities in Thailand and the E.U., and its European rare earth separation facility, which supports compliance with the E.U. Critical Raw Materials Act.

8.4 Sourcing and Rare Earth Supply Strategy

Neo is among the most geographically diverse rare earth value-add companies in the world. Neo's C&O business has rare earth separation capacity and the Magnequench business has magnetic powder, magnets, and magnetic assemblies manufacturing capabilities in Europe and Asia, both inside and outside of China. In addition, Neo's Rare Metals business maintains a global network of recycled scrap metal suppliers supporting its product portfolio. Neo is committed to maintaining sourcing strategies tailored to its business units and end markets which meet its global customers' growing demands for geographically diverse sources while ensuring material comes exclusively from licensed suppliers that comply with environmental and labour regulations.

Some of the Company's long term rare earth feedstock agreements include mining project partnerships with Neo North Star Resources in Greenland, Australian Rare Earths and Hastings Technology Metals Ltd. ("**Hastings**") in Australia, and Meteoric Resources in Brazil. For more information refer to Neo's 2024 AIF.

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

Rare Metals is focused on maintaining a diverse supply of low-cost recycled scrap metal sources while continuing to shift focus from midstream to downstream operations to further diversify raw material supply and focus on value-add operations. In executing this strategy, the business achieved a major milestone in the fourth quarter of 2023 with the closure of hydrometallurgical processing at the Silmet facility. This allowed the business to move from a single source of niobium and tantalum bearing ores to multiple sources of oxides and recycled materials. This change has increased sourcing optionality while reducing working capital requirements and has returned positive economics in 2024.

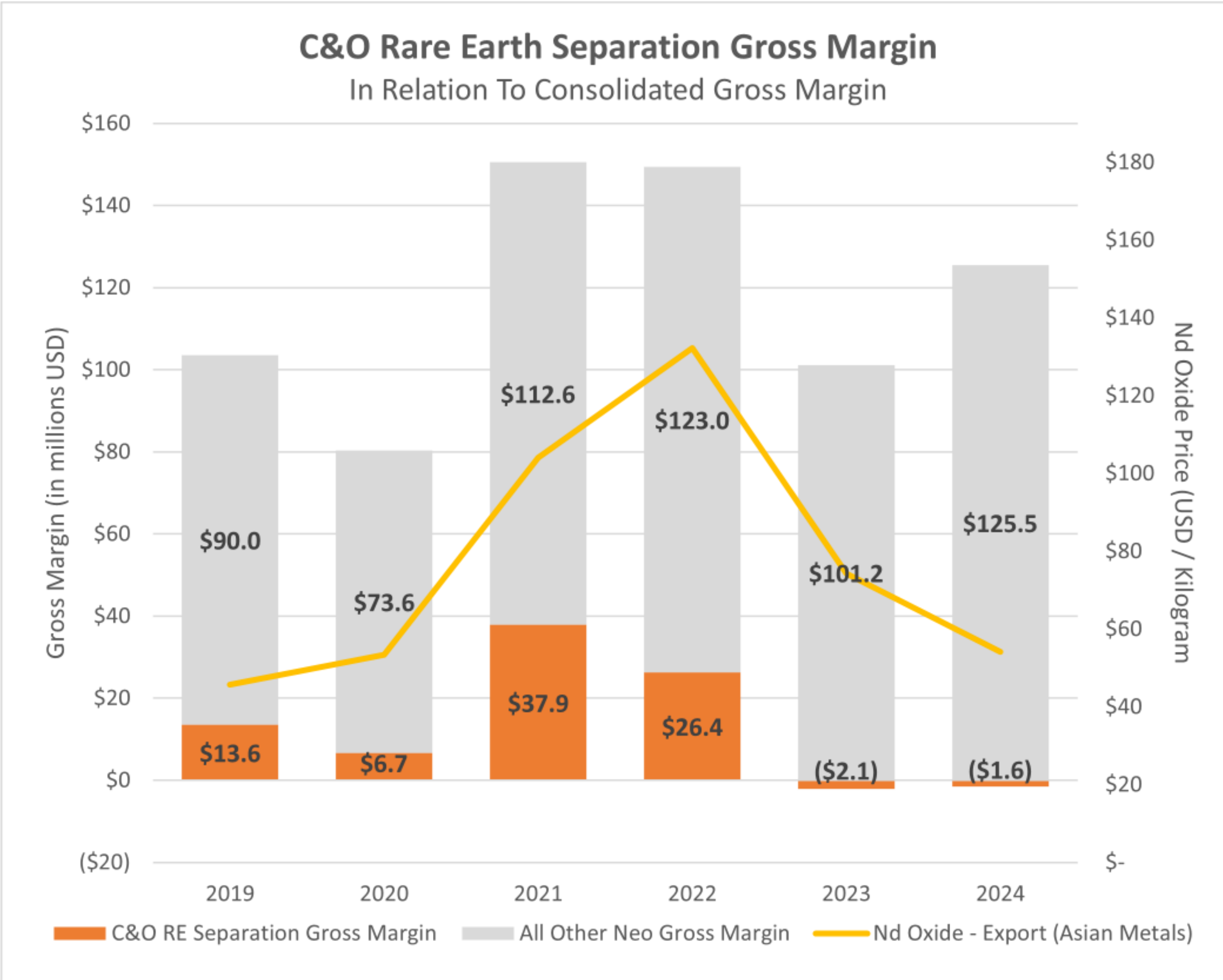
8.5 Impact of Rare Earth Prices on Margins and Mitigating Actions

In recent years, rare earth prices have been highly volatile, with substantial price increases from late 2020 through early 2022, followed by sharp price declines from 2022 through early 2024. Since the second quarter of 2024, rare earth prices were range bound as markets responded to several supply and demand factors including: restocking and destocking activities, periodic signs of firmer end-market magnet demand, rising production quotas in China, and increasing capacity and output from mines in the rest of the world.

For Magnequench, the largest input costs are neodymium (Nd) oxide and praseodymium (Pr) oxide, both of which are tied to market indexes. To mitigate exposure to commodity price fluctuations, Magnequench contractually passes through changes in these costs to end customers. Over 80% of volumes include pass-through provisions, with most contracts updating prices on a monthly or quarterly basis. As a result, Magnequench's long-term margins are primarily driven by value-added conversion activities rather than raw material price fluctuations. However, in periods of high rare earth price volatility, short-term margin impacts may occur due to differences in inventory turnover timing relative to contract price adjustments (the "**lead-lag effect**").

For the C&O rare earth separation business, the largest input cost is rare earth carbonate, which contains many different rare earth elements in specified compositions (per feed source). Although the purchase cost of the rare earth carbonate is not a specified formula, the purchase cost is highly correlated to the market index price of the key rare earth magnetic elements. C&O's primary strategy is to convert these rare earth raw materials into highly engineered value-added products including proprietary formulations and specialty purity products. These margins are readily apparent when C&O purchases its raw materials. However, like Magnequench, in short-term periods of high rare earth pricing volatility, there may be favourable or unfavourable lead-lag effect related to the duration of inventory turnover relative to selling the majority of the compounds at current spot market index prices. The C&O rare earth separation business is most exposed to the lead-lag effect due to high inventory requirements, and its position in the rare earth value chain, as it generally sources and processes rare earth carbonate from upstream mining companies.

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



9. Consolidated Results of Operations

($000s)	Three Months Ended December 31,		Year Ended December 31	
	2024	**2023**	**2024**	**2023**
Revenue	$ 134,903	$ 128,668	$ 475,828	$ 571,545
Cost of sales				
Cost excluding depreciation and amortization	94,466	107,350	343,315	462,815
Depreciation and amortization	2,512	2,416	8,553	9,626
Gross profit	**37,925**	**18,902**	**123,960**	**99,104**
Expenses				
Selling, general and administrative	16,446	14,485	61,400	59,155
Share-based compensation	770	1,946	3,060	3,738
Depreciation and amortization	1,796	1,813	7,192	7,187
Research and development	6,894	4,415	16,869	16,144
(Reversal of impairment) / impairment of assets	(336)	1,713	138	1,713
Total expenses	25,570	24,372	88,659	87,937
Operating income (loss)	**12,355**	**(5,470)**	**35,301**	**11,167**
Other income	507	2,776	3,405	3,138
Finance (costs) income, net	(13,882)	742	(27,488)	(6,707)
Foreign exchange (loss) gain	(4,236)	4	(4,268)	(1,428)
(Loss) income from operations before income taxes and equity loss of associates	**(5,256)**	**(1,948)**	**6,950**	**6,170**
Income tax (expense) benefit	(7,571)	39	(17,945)	(11,683)
Loss from operations before equity loss of associates	**(12,827)**	**(1,909)**	**(10,995)**	**(5,513)**
Equity income (loss) of associates (net of income tax)	790	780	(2,021)	(2,878)
Net loss	**(12,037)**	**(1,129)**	**(13,016)**	**(8,391)**
Attributable to:				
Equity holders of Neo Performance Materials Inc.	(12,050)	$ (1,367)	(12,946)	$ (8,442)
Non-controlling interest	13	238	(70)	51
	$ (12,037)	**$ (1,129)**	**$ (13,016)**	**$ (8,391)**
Loss per share attributable to equity holders of Neo:				
Basic	$ (0.29)	$ (0.03)	$ (0.31)	$ (0.19)
Diluted	$ (0.29)	$ (0.03)	$ (0.31)	$ (0.19)

Revenue

Consolidated revenues of $134.9 million for the three months ended December 31, 2024 increased $6.2 million or 4.8% compared to the same period of 2023 primarily due to higher selling prices in the Rare Metals segment, partially offset by lower prices realized in Magnequench and C&O segments. Consolidated revenues of $475.8 million for the year ended December 31, 2024 decreased $95.7 million or 16.7% compared to 2023 similarly due to lower selling prices realized by Magnequench and C&O compared to the prior year. Revenue often trends along with commodity prices due to pass-through pricing mechanisms in most contracts. These provisions are contractual mechanisms that adjust selling prices based on changes in input costs over defined timeframes (e.g., monthly, quarterly, semi-annually, or annually). These provisions help mitigate gross margin volatility resulting from timing differences between cost being recognized and sales being recorded.

($000s)	Three Months Ended December 31,			Year Ended December 31		
	2024	**2023**	%	**2024**	**2023**	%
Magnequench	$ 43,500	$ 54,827	(20.7%)	$ 176,649	$ 213,735	(17.4%)
C&O	43,606	55,552	(21.5%)	146,516	235,929	(37.9%)
Rare Metals	48,441	19,724	145.6%	156,206	124,601	25.4%
Eliminations	(644)	(1,435)	(55.1%)	(3,543)	(2,720)	30.3%
Consolidated Revenue	**$ 134,903**	**$ 128,668**	4.8%	**$ 475,828**	**$ 571,545**	(16.7%)

Inter-segment revenues 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 *Section 10. Discussion and Analysis of Business Segments*.

Cost of Sales

Consolidated cost of sales, excluding depreciation and amortization, for the three months ended December 31, 2024 was $94.5 million or 70.0% of revenue, compared to $107.4 million or 83.4% of revenue for three months ended December 31, 2023. Consolidated cost of sales, excluding depreciation and amortization, for the year ended December 31, 2024 was $343.3 million or 72.2% of revenue, compared to $462.8 million or 81.0% of revenue for the year ended December 31, 2023. Cost of sales, excluding depreciation and amortization, as a percentage of revenue improved mainly due to favourable rare earth commodity prices and product mix within the business segments. Consolidated cost of sales include raw materials and conversion costs — the expenses directly associated with transforming raw materials into finished products (including labour, energy, and processing expenses). Neo continues to focus on optimizing production efficiency to improve its controllable conversion costs.

Consolidated depreciation and amortization in cost of sales of $2.5 million and $8.6 million for the three months and year ended December 31, 2024, respectively, increased by $0.1 million and decreased by $1.1 million compared to the same periods in 2023 primarily due to lower carrying values of property, plant and equipment with the exception of the newly-constructed NAMCO facility.

Selling, General and Administrative ("SG&A") expense

SG&A expense consists primarily of personnel and related costs, including freight, legal, accounting and other professional service fees, and information technology costs. SG&A expense of $16.4 million and $61.4 million for the three months and year ended December 31, 2024, respectively, increased $2.0 million and $2.2 million compared to the same periods in 2023 primarily due to advisory fees associated with the strategic review process.

Share-based Compensation

Share-based compensation expense was $0.8 million and $3.1 million for the three months and year ended December 31, 2024, respectively, compared to $1.9 million and $3.7 million for the three months and year ended December 31, 2023, primarily due to fewer grants issued in 2024 and share price movement relative to the same periods in 2023.

Research and Development ("R&D") Expense

A critical success factor for Neo is to continually develop and evolve new products that meet new and emerging markets and customer's exacting specifications. Neo maintains close relationships with key customers to better understand changes in market factors, and to deliver innovative products both as improvements to existing applications and for developing new applications and solutions. Neo's R&D activities aim to identify new commercial applications for its products, provide technical solutions to its customers, as well as drive new process and market development.

R&D expense, primarily comprised of salaries, outside labour, materials, and equipment, of $6.9 million and $16.9 million for the three months and year ended December 31, 2024, respectively, increased $2.5 million and $0.7 million compared to the same periods of 2023. The increase in late 2024 was primarily due to transitional work underway at the European PM facility prior to commencement of operations expected in 2026. In general, R&D costs are project-based and may fluctuate in any given period.

Depreciation and Amortization

Depreciation and amortization, unrelated to production, of $1.8 million and $7.2 million for the three months and year ended December 31, 2024, respectively, remained stable compared to the same periods in 2023.

Other Income (Expense)

Other income of $0.5 million and $3.4 million for the three months and year ended December 31, 2024, respectively, decreased $2.3 million and increased $0.3 million compared to the same periods in 2023. Included in other income for the year ended December 31, 2024 was the reversal of a mandatory special reserve to cover potential liabilities related to employee safety or workplace incidents at the ZAMR facility in China when the facility was closed. In addition, other income (expense) includes charges for estimated damage claims related to legal proceedings and estimated costs for the disposal of existing naturally occurring radioactive materials ("**NORM**") as well as NORM generated during the quarter.

Finance (Costs) Income, Net

Neo's finance costs are primarily comprised of interest and finance costs on credit facilities, re-measurement of Neo's derivative liability put option issued to the non-controlling shareholders of two subsidiaries, Buss & Buss and SGTec, and re-measurement of consideration to be paid in 2026 to SGTec's selling shareholders contingent on certain criteria. In 2024, Neo paid special dividends to the minority shareholder of the Buss & Buss subsidiary, which is done on a periodic basis as the Company evaluates capital and liquidity requirements across its subsidiaries. A special dividend was last paid in 2021. Subsequent to the year-end, in March 2025, a special dividend totaling €6.8 million ($7.4 million) was paid to the minority shareholder.

Neo's interest-bearing credit facilities include a revolving loan in China and in Germany and term loans in Estonia, the UK and Canada. Where applicable, interest cost is capitalized into property, plant and equipment, such as for the NAMCO and PM facilities' construction.

Neo's derivative liabilities are remeasured each reporting period based on forecasts of future performance of Buss & Buss and SGTec, long term growth factors and changes in discount rates.

	Three Months Ended December 31,		Year Ended December 31	
	2024	**2023**	**2024**	**2023**
Special dividend paid to Buss & Buss minority shareholder	$ 7,216	$ —	$ 14,699	$ —
Change in fair value of derivative liabilities	5,511	(585)	11,372	7,752
Interest expense on credit facilities, net of capitalized costs	1,153	32	1,846	455
Interest earned on bank deposits and other	3	(189)	(429)	(1,500)
Total	**$ 13,883**	**$ (742)**	**$ 27,488**	**$ 6,707**

For the three months and year ended December 31, 2024, $nil and $2.7 million of interest cost was capitalized primarily for the expansion, relocation, upgrade and modernization of NAMCO facility compared to $0.6 million and $2.6 million of interest capitalized for the three months and year ended December 31, 2023. Neo ceased the capitalization of interest costs during the third quarter of 2024 when substantially all the activities necessary to prepare NAMCO's property, plant and equipment for their intended use were complete.

Foreign Exchange (Loss) Gain

Foreign exchange loss (gain) represents realized and unrealized losses (gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities. Inter-company loans within the

Group between entities with different functional currencies can result in unrealized foreign exchange gains or losses in the statement of other comprehensive income and the statement of profit or loss, respectively, which are not eliminated on consolidation.

Income Tax Expense

Neo's income tax expense is based on the income earned or loss incurred in each tax jurisdiction at the enacted or substantively enacted tax rate applicable to that income or loss.

Neo's effective income tax rate can vary significantly from quarter-to-quarter for various reasons, including the mix and volume of business in different tax jurisdictions, jurisdictions with tax holidays and tax incentives, and jurisdictions for which no deferred tax assets have been recognized because management believed it was not probable that future taxable income would be available against which tax losses and deductible temporary differences could be utilized. Neo's effective income tax rate can also vary due to the impact of foreign exchange fluctuations, operating losses, changes in its provisions related to tax uncertainties and changes in management's assessment as to whether temporary differences arising from investments in subsidiaries will reverse in the foreseeable future.

Neo recognizes deferred tax assets to the extent management believes it is probable that the related tax benefit amount will be realized. Management considers factors such as the reversal of taxable temporary differences, projected future taxable income, the character of the income tax asset, tax planning strategies, changes in tax laws and other factors. A change to these factors could impact the amount of deferred tax assets Neo recognizes.

For the three months and year ended December 31, 2024, Neo recorded an income tax expense of $7.6 million and $17.9 million (2023 — benefit of less than $0.1 million and expense of $11.7 million), respectively. For the three months ended December 31, 2024, Neo's income tax expense was unfavourably impacted by $2.1 million (2023 — favourably impacted by $1.8 million) due to foreign exchange fluctuations on certain non-monetary assets, $3.5 million (2023 — $0.1 million) due to non-deductible finance costs and $2.9 million (2023 — $2.2 million) due to losses and temporary differences for which there are no recognized tax benefits. Non-deductible finance costs primarily comprise of the special dividends paid to the Buss & Buss minority shareholder and the re-measurement expense of the derivative liability. For the year ended December 31, 2024, Neo's income tax expense was unfavourably impacted by $1.4 million (2023 — favourably impacted by $0.3 million) due to foreign exchange fluctuations on certain non-monetary assets, $7.1 million (2023 — $2.1 million) due to non-deductible finance costs losses and $7.9 million (2023 — $9.8 million) due to losses and temporary differences for which there are no recognized tax benefits.

Capital Expenditures

Neo reinvests to enhance production capabilities, improve operational efficiency, support innovation in advanced materials, modernize manufacturing infrastructure, expand sustainable supply chains, and meet growing demand for high-performance magnets, catalysts, and engineered materials. These investments align with long-term industry trends, including electrification, clean energy, and advanced automotive technologies. By strengthening capabilities in separation, refining, and precision manufacturing, Neo enhances its competitive position while ensuring the reliability and quality of critical materials used in key industries worldwide.

Neo capitalized expenditures of $80.2 million for the year ended December 31, 2024, comprised of $26.8 million (RMB 194.0 million) for the construction of the NAMCO production facility, $42.5 million relating to expenditures incurred for the construction of the new permanent magnet manufacturing facility in Europe, $2.7 million in capitalized interest expense relating to the EDC credit facilities, and the remainder of capital expenditures were comprised of right-of-use asset additions and a combination of sustaining capital expenditures, growth capital investment to assist in adding new capacity or new products, and strategic capital tied to longer-term planning initiatives.

With the construction of NAMCO completed, a total of $49.8 million (RMB 350.7 million before capitalized interest) has been spent since inception of the project including approximately $4.4 million to secure a 50-year land lease at the new site. The European PM facility has total capital expenditures of $51.5 million since project inception (net of EU grant reimbursement of $5.6 million).

For the year ended December 31, 2023, capital expenditures totaled $44.0 million (excluding the acquisition of SGTec's property, plant and equipment of $13.3 million from business combination), comprised of $22.7 million for the construction of NAMCO, $9.0 million incurred for the construction of PM, $2.6 million in capitalized interest expenses relating to the EDC credit facilities, and the remainder of $7.7 million for other growth and sustaining capital expenditures.

9.1 Reconciliations of Net Loss to EBITDA, Adjusted EBITDA and Free Cash Flow

($000s, except volume)	Three Months Ended December 31,			Year Ended December 31		
	2024	**2023**	%	**2024**	**2023**	%
Sales volume (tonnes)	3,157	3,144	0.4%	12,413	12,970	(4.3%)
Revenue	$ 134,903	$ 128,668	4.8%	$ 475,828	$ 571,545	(16.7%)
Net loss	**$ (12,037)**	**$ (1,129)**	(966.2%)	**$ (13,016)**	**$ (8,391)**	(55.1%)
Add back (deduct):						
Finance costs (income), net	13,882	(742)		27,488	6,707	
Income tax expense (benefit)	7,571	(39)		17,945	11,683	
Depreciation and amortization included in cost of sales	2,512	2,416		8,553	9,626	
Depreciation and amortization included in operating expenses	1,796	1,813		7,192	7,187	
EBITDA	**13,724**	**2,319**	491.8 %	**48,162**	**26,812**	79.6 %
Adjustments to EBITDA:						
Other income	(507)	(2,776)		(3,405)	(3,138)	
Foreign exchange loss (gain)	4,236	(4)		4,268	1,428	
Equity (income) loss of associates	(790)	(780)		2,021	2,878	
Share-based compensation	770	1,946		3,060	3,738	
Fair value adjustments to inventory acquired	—	222		—	1,217	
Project start-up and transition costs	2,345	457		7,827	1,370	
(Recovery) impairment of assets	(336)	1,713		138	1,713	
Transaction and other costs	1,249	—		2,327	1,201	
Adjusted EBITDA	**$ 20,691**	**$ 3,097**	568.1 %	**$ 64,398**	**$ 37,219**	73.0 %
Adjusted EBITDA Margins	*15.3%*	*2.4%*		*13.5%*	*6.5%*	
Less:						
Capital expenditures	22,818	24,332	(6.2)%	80,205	43,961	82.4 %
Free Cash Flow	**$ (2,127)**	**$ (21,235)**	90.0 %	**$ (15,807)**	**$ (6,742)**	(134.5)%

Other income generally represents non-operational activities deemed not indicative of Neo's ongoing operations. For the year ended December 31, 2024, other income includes the reversal of a liability for employee safety incidents no longer required after closing of the legacy light rare earth separation facility in Zibo, China. For the year ended December 31, 2023, other expense included charges for estimated damage claims related to legal proceedings, partly offset by a gain from consideration paid for the acquisition of SGTec for less than the fair value of identifiable net assets.

Foreign exchange losses (gains) include non-cash adjustments in translating foreign currency denominated monetary assets and liabilities.

Project start-up and transition costs represent primarily pre-operational staffing costs at the new European permanent magnet facility, as well as transition cost during qualification and start-up of the new NAMCO facility and closing of the legacy light rare earth separation facility in Zibo, China. Neo has removed these charges to provide comparability with historic periods.

Impairment (recovery) totaling $0.1 million was recorded for the year ended December 31, 2024 as a result of an impairment charge of $0.5 million associated with the shutdown of the light rare earth separation business in ZAMR, which is partially offset by the reversal of $0.4 million prepayment impairment previously recognized in Rare Metals' hafnium business. Impairment for the year ended December 31, 2023 totaling $1.7 million was due to the closure of hydrometallurgical processing at the Silmet facility.

Transaction and other costs represent costs related to a comprehensive strategic review of Neo's current operation strategy and capital structure. These costs primarily consist of professional fees for legal advisors, bankers, and other specialists engaged in evaluating and advising on strategic alternatives aimed at enhancing shareholder value. Neo has removed these charges to provide comparability with historic periods.

Consolidated Free Cash Flow of $2.1 million for the three months ended December 31, 2024 increased $19.1 million compared to the same period of 2023 primarily due to higher Adjusted EBITDA and lower capital expenditures. Consolidated Free Cash Flow shortfall of $15.8 million for the year ended December 31, 2024 improved $9.1 million compared to the prior year primarily due to higher Adjusted EBITDA offset by capital expenditures at the European PM facility.

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

($000s)	Three Months Ended December 31,		Year Ended December 31	
	2024	**2023**	**2024**	**2023**
Net loss	**$ (12,037)**	**$ (1,129)**	**$ (13,016)**	**$ (8,391)**
Adjustments to net loss:				
Foreign exchange loss (gain)	4,236	(4)	4,268	1,428
(Recovery) impairment of assets	(336)	1,713	138	1,713
Share-based compensation	770	1,946	3,060	3,738
Project start-up & transition costs	2,345	457	7,827	1,370
Other items included in other income	(1,245)	(2,251)	(3,244)	(2,529)
Fair value adjustments to inventory acquired	—	222	—	1,217
Transaction and other costs	1,249	—	2,327	1,201
Tax impact of the above items	138	(53)	545	(722)
Adjusted net (loss) income	**$ (4,880)**	**$ 901**	**$ 1,905**	**$ (975)**
Attributable to:				
Equity holders of Neo	$ (4,893)	$ 663	$ 1,975	$ (1,026)
Non-controlling interest	13	238	$ (70)	$ 51
Weighted average number of common shares outstanding:				
Basic (000s)	41,759	42,418	41,773	44,325
Diluted (000s)	41,759	42,418	41,773	44,325
Adjusted (loss) earnings per share attributable to equity holders of Neo:				
Basic	$ (0.12)	$ 0.02	$ 0.05	$ (0.02)
Diluted	$ (0.12)	$ 0.02	$ 0.05	$ (0.02)

Other items included in other income represent items resulting from non-operational activities, including provisions for damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities. Other income for the year ended December 31, 2024 includes the reversal of a liability for employee safety incidents no longer required after closing of the legacy light rare earth separation facility in Zibo, China. This reserve was released when Neo shut down this operation.

Consolidated Adjusted Net Income of $4.9 million for the three months ended December 31, 2024 decreased $5.8 million compared to the same period of 2023 primarily due higher finance costs and income tax expense, partially offset by higher gross profit relative to same quarter last year. Consolidated Adjusted Net Income of $1.9 million for the year ended December 31, 2024 increased $2.9 million compared to the prior year primarily due to higher gross profit, partially offset by higher finance costs and income tax expense.

10. Discussion and Analysis of Business Segments

The following analysis of Neo's three business segments presents operating results on an unconsolidated basis (i.e., before intercompany eliminations).

10.1 Magnequench

($000s, except volume)	Three Months Ended December 31,			Year Ended December 31		
	2024	**2023**	%	**2024**	**2023**	%
Sales volume (tonnes)	1,295	1,281	1.1%	5,064	4,694	7.9%
Revenue	$ 43,500	$ 54,827	(20.7%)	$ 176,649	$ 213,735	(17.4%)
Operating income	**$ 2,018**	**$ 2,675**	(24.6%)	**$ 10,123**	**$ 7,618**	32.9%
EBITDA	**3,377**	**9,432**	(64.2)%	**15,919**	**18,548**	(14.2)%
Other income	(648)	(2,340)		(644)	(2,237)	
Foreign exchange loss (gain)	2,454	(1,165)		2,735	(1,041)	
Equity (income) loss of associates	(877)	(968)		1,205	1,537	
Share-based compensation	173	312		584	554	
Project start-up & transition costs	2,345	457		5,729	1,370	
Fair value adjustments to inventory acquired	—	222		—	1,217	
Transaction and other costs	—	—		—	1,201	
Adjusted EBITDA	**$ 6,824**	**$ 5,950**	14.7 %	**$ 25,528**	**$ 21,149**	20.7 %
Adjusted EBITDA Margin	15.7%	10.9%		14.5%	9.9%	

For the year ended December 31, 2024, Magnequench contributed 36.9% of revenues, 17.6% of operating income and 31.1% of Neo's reported Adjusted EBITDA from operations before eliminations.

Revenues for the Magnequench segment of $43.5 million and $176.6 million, respectively, for the three months and year ended December 31, 2024 decreased $11.3 million and $37.1 million compared to the same periods of 2023. This was primarily due to lower rare earth prices, which are passed through to customers in accordance with pass-through pricing mechanisms. As a result, the decline in material costs led to a corresponding reduction in selling prices, as such limiting the effect on gross margins.

Operating income of $2.0 million for the three months ended December 31, 2024 decreased $0.7 million compared to the same period of 2023 primarily due to increases in operating expenses driven by pre-operational staffing costs for the new permanent magnet facility. Operating income of $10.1 million for the year ended December 31, 2024 increased $2.5 million compared to the prior year primarily driven by higher volumes and reduced conversion costs, as Magnequench has taken notable cost actions through increasing yield, driving process efficiency through automation, reducing utility costs, and rightsizing its labour force.

Adjusted EBITDA for the three months and year ended December 31, 2024 was $6.8 million and $25.5 million, respectively, increases of $0.9 million and $4.4 million compared to the same periods of 2023. This represents the fundamental operating performance of the business with Magnequench delivering volume gains in targeted growth areas and reducing operating expenses (after adjusting for pre-operational staffing costs). Adjusted EBITDA Margins for fiscal year 2024 improved 460 basis points demonstrating the value-add nature of Magnequench's product portfolio where margins expand in a low rare earth pricing environment due to pass-through pricing mechanisms mitigating exposure to commodity price fluctuations.

10.2 Chemicals & Oxides

($000s, except volume)	Three Months Ended December 31, 2024	Three Months Ended December 31, 2023	%	Year Ended December 31 2024	Year Ended December 31 2023	%
Sales volume (tonnes)	1,780	1,816	(2.0%)	7,067	7,990	(11.6%)
Revenue	$ 43,606	$ 55,552	(21.5%)	$ 146,516	$ 235,929	(37.9%)
Operating income (loss)	**$ 27**	**$ 2,622**	(99.0%)	**$ (2,854)**	**$ 4,088**	(169.8%)
EBITDA	**4,094**	**2,661**	53.9 %	**5,106**	**6,714**	(23.9%)
Other expense (income)	624	(384)		(2,157)	95	
Foreign exchange (gain) loss	(3,259)	1,540		(2,034)	1,691	
Equity loss of associates	87	188		816	1,341	
Share-based compensation	140	334		547	586	
Project start-up & transition costs	—	—		2,098	—	
(Reversal of impairment) / impairment of assets (1)	(336)	(1,121)		548	(1,121)	
Adjusted EBITDA	**$ 1,350**	**$ 3,218**	(58.0)%	**$ 4,924**	**$ 9,306**	(47.1%)
Adjusted EBITDA Margin	3.1%	5.8%		3.4%	3.9%	

(1) For the year ended December 31, 2024, represents an impairment charge of $0.5 million as a result of the shutdown of the light rare earth separation business in ZAMR in April 2024.

For the year ended December 31, 2024, C&O contributed approximately 30.6% of revenues, an operating loss representing 5.0% of total operating profit and 6.0% of Neo's reported Adjusted EBITDA from operations before eliminations.

Revenues in the C&O segment of $43.6 million and $146.5 million for the three months and year ended December 31, 2024, respectively, decreased by $11.9 million and $89.4 million compared to the same periods of 2023. This was primarily due to lower rare earth input prices, as the C&O rare earth separation business sells the majority of its compounds at spot market index prices, and the C&O value-added products, such as emissions catalyst, have pass-through provisions for rare earth materials. As a result, the decline in material costs led to a corresponding reduction in selling prices. In addition, lower volumes in the emissions catalyst business due to the mid-year launch of the NAMCO facility negatively impacted revenues.

Operating income of less than $0.1 million and *operating losses* of $2.9 million for the three months and year ended December 31, 2024, respectively, decreased by $2.6 million and $6.9 million compared to the operating incomes of 2023 primarily due to the above factors. Fiscal year 2024 performance was further impacted by transition costs totaling $2.1 million during qualification and ramp-up of the NAMCO facility and winding down of the ZAMR facility. In the fourth quarter of 2023, there was a one-time favourable impact from the reversal of previously impaired assets at the NAMCO facility.

Adjusted EBITDA of $1.4 million and $4.9 million for the three months and year ended December 31, 2024, respectively, decreased by $1.9 million and $4.4 million compared to the same periods of 2023 primarily due to the demand factors listed above with weakness in emissions catalyst and premium heavy rare earth products. While management expects growth in the C&O catalyst business, the fundamentals of C&O's separation business remained challenged. The C&O separation business continued to underperform in the fourth quarter as rare earth prices remain subdued. The industry has been negatively impacted by depressed rare earth prices with upstream and midstream companies facing significant margin pressure and pre-production mines facing challenges with economic feasibility at current price levels. Although prices remain subdued, rates of rare earth pricing declines have slowed, which is translating into reduced earnings volatility at C&O.

10.3 Rare Metals

($000s, except volume)	Three Months Ended December 31,		%	Year Ended December 31		%
	2024	**2023**		**2024**	**2023**	
Sales volume (tonnes)	92	67	37.3%	348	326	6.7%
Revenue	$ 48,441	$ 19,724	145.6%	$ 156,206	$ 124,601	25.4%
Operating income (loss)	**$ 16,910**	**$ (5,597)**	402.1%	**$ 50,134**	**$ 19,670**	154.9%
EBITDA	**18,061**	**(6,298)**	386.8%	**52,651**	**20,367**	158.5%
Other income	(483)	(52)		(658)	(85)	
Foreign exchange (gain) loss	(244)	1,238		(83)	925	
Share-based compensation	49	78		262	166	
Impairment (reversal of impairment) of assets [1]	—	2,834		(410)	2,834	
Adjusted EBITDA	**$ 17,383**	**$ (2,200)**	890.1%	**$ 51,762**	**$ 24,207**	113.8%
Adjusted EBITDA Margin	35.9%	(11.2%)		33.1%	19.4%	

(1) For the year ended December 31, 2024, represents a reversal of a prepayment impairment previously recorded in Rare Metals' hafnium business.

For the year ended December 31, 2024, Rare Metals contributed approximately 32.6% of revenues, 87.3% of operating profit and 63.0% of Neo's reported Adjusted EBITDA from operations before eliminations.

Revenue in the Rare Metals segment of $48.4 million and $156.2 million for the three months and year ended December 31, 2024, respectively, increased $28.7 million and $31.6 million compared to the same periods of 2023 primarily due to higher volumes and market pricing, particularly for hafnium with sales delivered on long-term contracts negotiated in 2023 at prices above current market spot prices.

Operating income of $16.9 million and $50.1 million for the three months and year ended December 31, 2024, respectively, increased $22.5 million and $30.5 million compared to the same periods of 2023 primarily due to the above factors, with hafnium volumes and gross margins being the largest driver of record operating income for the business. Rare Metals also delivered improved operating margins in the gallium business driven by strong demand and pricing tailwinds from new Chinese regulations; as well as the niobium business at Silmet, which expanded margins after streamlining its operations by shutting down hydrometallurgical processing in late 2023.

Adjusted EBITDA of $17.4 million and $51.8 million for the three months and year ended December 31, 2024, respectively, similarly increased $19.6 million and $27.6 million compared to the same periods of 2023. With strong end market demand and strategic emphasis on operational and commercial initiatives, the business continues to outperform. Rare Metals' hafnium business has benefited from a robust order book, stable spot sales, and strong consignment pull-through. As hafnium prices stabilize, management anticipates a contraction in gross margins. However, the fundamental strength of the hafnium business remains solid. Rare Metals is actively monitoring the pricing environment while tactically securing long-term hafnium supply for 2025 and 2026.

11. Summary of Consolidated Quarterly Results

($000s, except for per share amounts)	2024				2023			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	$134,903	$111,281	$107,549	$122,095	$128,668	$136,917	$170,430	$135,530
Net (loss) income attributable to equity holders of Neo	(12,050)	(2,627)	859	873	(1,367)	3,069	310	(10,454)
Basic EPS	(0.29)	(0.06)	0.02	0.02	(0.03)	0.07	0.01	(0.23)
Diluted EPS	(0.29)	(0.06)	0.02	0.02	(0.03)	0.07	0.01	(0.23)
Operating income (loss)	12,355	11,176	5,824	5,948	(5,470)	6,959	13,675	(3,997)
Net (loss) income	(12,037)	(2,711)	883	849	(1,129)	3,109	329	(10,700)
EBITDA	13,724	14,873	9,377	10,188	2,319	11,053	14,584	(1,144)
Adjusted EBITDA	$ 20,691	$ 19,555	$ 13,392	$ 10,760	$ 3,097	$ 13,160	$ 20,175	$ 787
Adjusted EBITDA Margin	15.3%	17.6%	12.5%	8.8%	2.4%	9.6%	11.8%	0.6%

12. Liquidity and Capital Resources

12.1 Cash flow and Liquidity

Neo maintains sufficient liquidity to meet short- and medium-term cash needs and ensures that it has access to sufficient resources to fund quarterly cash dividend requirements, meet growth expenditure commitments, capitalize on investment opportunities, and other needs in the normal course of operations. Neo finances these commitments through cash flow from operations, corporate credit facilities, and equity, such as common and preferred shares.

	Year Ended December 31,	
Cash flow:	**2024**	**2023**
Cash provided by operating activities	$ 51,532	$ 60,982
Cash used in investing activities	(59,417)	(59,116)
Cash provided by (used in) financing activities	13,123	(61,406)

Financial position - as at	**December 31, 2024**	**December 31, 2023**
Cash and cash equivalents	$ 85,489	$ 86,895
Restricted cash	—	3,357
Property, plant and equipment	178,925	118,918
Total assets	653,254	627,004
Current portion of long-term debt	4,610	2,230
Long-term debt	64,186	23,101

As at December 31, 2024, Neo had cash and cash equivalents of $85.5 million, compared to $86.9 million plus $3.4 million of restricted cash balance as at December 31, 2023. For the year ended December 31, 2024, Neo paid $12.3 million in dividends to its shareholders and made NCIB purchases in the amount of $2.3 million. Neo's financial position and ability to generate cash from its operations in the short and long-term remains sound.

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

Inflows

- $56.2 million from operations before net change in working capital, income taxes paid and net interest received;
- $49.2 million drawn on the EDC credit facilities ($25.0 million at NAMCO and $24.2 million at the European PM facility).
- $18.3 million net change in working capital; and
- $3.3 million released from restricted cash.

Outflows

- $64.2 million of other capital spending;
- $22.4 million of income taxes paid;
- $12.3 million of dividends paid to shareholders;
- $5.0 million repayment of EDC NAMCO credit facility;
- $2.3 million of shares repurchased under the NCIB;
- $2.0 million of lease payments; and
- $1.5 million repayment of term loan facilities at SGTec.

Cash Provided by Operating Activities

Net cash provided by operating activities was $51.5 million for the year ended December 31, 2024, compared to the use of $61.0 million for the year ended December 31, 2023.

The $18.3 million net change in working capital for the year ended December 31, 2024, was primarily attributable to lower inventory driven by declining rare earth prices, as well as release of strategic inventory held to support contracted hafnium volumes in the first three quarters of 2024. This decrease was partially offset by a decrease in accounts payable and other accrued charges.

Cash Used in Investing Activities

For the year ended December 31, 2024, net cash used in investing activities was $59.4 million, compared to $59.1 million for the year ended December 31, 2023. The cash used in investing activities was primarily related to $18.9 million (including capitalized interest of $2.7 million relating to the EDC facility) for the NAMCO relocation, upgrade and modernization, $42.5 million (net of EU grant reimbursement of $5.6 million) for the establishment of the permanent magnet manufacturing plant in Europe, as well as additional capital projects performed at the Tianjin and Silmet facilities. This cash used in capital projects was offset in part by a decrease in restricted cash of $3.3 million, due to the release of the remaining purchase consideration previously held in escrow for the acquisition of SGTec as well as the release of cash previously held as collateral against Neo's letters of credit.

Cash Provided by (Used in) Financing Activities

Net cash used in financing activities during the year ended December 31, 2024 was $13.1 million, compared to $61.4 million for the year ended December 31, 2023. For the year ended December 31, 2024, Neo has drawn on its EDC credit facilities in the amount of $49.2 million ($25.0 million for NAMCO relocation and $24.2 million at the European PM facility), repaid $5.0 million of EDC NAMCO credit facility, spent $2.3 million in shares repurchased, and distributed $12.3 million in dividends to Neo's shareholders.

In the year ended December 31, 2023, Neo repaid $21.9 million of its bank advances and other short-term debt, repaid $7.0 million of its Estonia term debt facility, spent $19.9 million in shares repurchased, distributed, and $13.4 million in dividends to its shareholders.

($000s) *Cash and cash equivalents by Country*	December 31, 2024	December 31, 2023
China (including Hong Kong) (net of cash reclassified to assets held for sale of $5,077)	$ 17,604	$ 39,493
Estonia	27,796	4,239
United States	4,297	8,390
Canada	6,692	7,341
Japan	4,330	3,659
United Kingdom	1,970	2,772
Germany	11,388	7,177
Singapore	4,900	3,921
Barbados	63	354
Thailand	5,012	8,094
Cayman Islands	2	32
Other	1,435	1,423
Total cash and cash equivalents	**$ 85,489**	**$ 86,895**

Of the above balances, approximately $11.3 million of cash on hand held by Neo's foreign operating subsidiaries relates to earnings 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, management does not consider this to be a significant risk to its ability to meet ongoing commitments or fund operations.

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

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

12.2 Outstanding Shares Information

Class of Equity Security	Total Outstanding as at December 31, 2024
Common Shares	41,771,464
Stock Options (1)	2,076,960
Restricted Share Units & Performance Stock Units	598,840

(1) Each stock option can be exercised to purchase one common share.

The number of common shares outstanding as at March 17, 2025 is 41,771,464.

During the year ended December 31, 2024, Neo granted 612,850 Options, 145,455 equity-settled RSUs and 183,550 cash-settled RSUs under the Omnibus LTIP.

As at December 31, 2024, Hastings held 8,974,127 or 21.5% of Neo’s issued and outstanding common shares. On February 20, 2025, Hastings sold 8,350,311 of its common shares to a third-party, Wyloo Consolidated Investments Pty. Ltd.

12.3 Normal Course Issuer Bid

In June 2023, upon approval by the TSX, Neo initiated a NCIB for up to 3,585,011 of its issued and outstanding common shares for a period of one year. In connection with the NCIB, Neo entered into an automatic share purchase plan to allow for purchases of its shares.

During the year ended December 31, 2024, Neo repurchased and cancelled 398,871 shares for $2.3 million. Upon termination of the NCIB on June 18, 2024, Neo had fully utilized the allotment under the NCIB for up to 3,585,011 of its issued and outstanding common shares. As a result, Neo did not repurchase shares during the second half of 2024. For the year ended December 31, 2023, Neo repurchased and cancelled 3,186,140 shares for $19.9 million.

13. 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.

Financial liabilities	1 year	2-3 years	4-5 years	Beyond 5 years	Total
Short-term debts	$ 2,740	$ —	$ —	$ —	$ 2,740
Accounts payable and other accrued charges	69,546	—	—	—	69,546
Derivative liabilities(1)	47,416	—	1,311	—	48,727
EDC credit facilities	10,672	54,642	22,653	—	87,967
Provisions(2)	12,512	8,252	—	—	20,764
Lease obligations(3)	1,444	1,261	817	2,384	5,906
Other liabilities	647	770	57	322	1,796
Contractual commitments (4)	5,713	891	4,041	—	10,645
Total	**$ 150,690**	**$ 65,816**	**$ 28,879**	**$ 2,706**	**$ 248,091**

(1) Represents the fair value of the put options on shares of the remaining shareholders of Buss & Buss and SGTec.

(2) Primarily represents management's best estimate of damages provision related to legal proceedings (see “Legal Proceedings and Regulatory Actions”).

(3) Represents the lease payment obligations for office space, land, office equipment and machinery.

(4) Represents the undiscounted contractual commitments directly associated with assets held for sale.

As at December 31, 2024, Neo had $85.5 million of cash and cash equivalents. Management believes Neo has sufficient cash available, including cash from operating activities, to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months. Management 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.

14. Financial Instruments and Risk Management

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

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

The level in which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the consolidated statements of financial position as at December 31, 2024, are grouped into the fair value hierarchy as follows:

($000s)	**Level 1**	**Level 2**	**Level 3**
Financial Assets:			
Equity securities	$ 217	$ —	$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	$ —	$ —	$ 47,416
Put option issued to non-controlling interest of SGTec	$ —	$ —	1,311
Contingent consideration liability	$ —	$ —	667

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 may significantly change amounts recognized in net income, total assets, total liabilities or total equity. The following is a sensitivity analysis of the inputs to the valuation model of the Buss & Buss derivative liability as at December 31, 2024 assuming all other inputs are unchanged:

	Effect of 1% increase	**Effect of 1% decrease**
Terminal growth rate	$ 774	$ (868)
Overall discount rate	$ (1,906)	$ 2,123

There have been no transfers between levels for the year ended December 31, 2024.

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 in place for revenues or costs.

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

Interest rate risk

Neo is exposed to interest rate risk as the EDC credit facilities are variable rate long-term debt instruments tied to the secured overnight financing rate ("**SOFR**"), as administered by the Federal Reserve Bank of New York, plus an applicable margin. The following table shows the impact of a one-percentage point increase or decrease of the SOFR on Neo's profit or loss:

	Year ended December 31, 2024
1% increase	
Net earnings before tax	$ (290)
1% decrease	
Net earnings before tax	291

Neo generally does not hedge against interest rate risk which may lead to higher interest payments when the SOFR rate goes up.

Credit risk

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

Under IFRS 9, Neo calculates a loss allowance using the expected credit loss impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at December 31, 2024, the loss allowance was approximately $0.5 million. The estimated credit losses are included in selling, general and administrative expenses in the consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose Neo to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at December 31, 2024, 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 continually 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.

15. Business Risks and Uncertainties

Neo's business activities expose the company to various risks. Risk oversight and management processes are integral to Neo’s strategic planning initiatives, which aim to mitigate risks and capitalize on opportunities where possible.

Risks and uncertainties can cause Neo's actual results or shareholder returns to differ materially from expectations, including those discussed in the associated financial statements, elsewhere in this MD&A, and Neo’s 2024 AIF. These risks include, but are not limited to, the following:

- *Supplies of Raw Materials* – Neo relies on a limited number of suppliers for critical raw materials, particularly rare earth elements, and any disruption in supply due to geopolitical, trade, or logistical factors could impact production and costs.
- *Fluctuations in Demand for, and Prices of, Critical Inputs* – The prices of key raw materials are subject to market volatility, which may impact profitability if cost changes cannot be fully passed through to customers.
- *Changes in Regulation of the Rare Earths Industry* – China plays a dominant role in rare earth production, and changes in its regulatory environment, including export controls or production quotas, could restrict Neo’s access to essential materials.
- *Production and Operations* – Neo’s ability to maintain efficient production is subject to risks such as manufacturing disruptions, facility expansions, regulatory compliance, and supply chain constraints.
- *Customer Dependence* – A significant portion of Neo’s revenue comes from key customers, and loss of major clients, contract renegotiation, or changes in procurement strategies could materially affect financial performance.
- *Information Technology and Cybersecurity* – Neo relies on IT infrastructure for business operations and is exposed to risks such as cyberattacks, data breaches, and unauthorized use of sensitive information.
- *International Operations* – Neo operates in multiple jurisdictions with complex regulatory, tax, and compliance requirements, and geopolitical instability or trade restrictions could negatively impact business operations.
- *Environmental Liability Exposure* – Neo is subject to environmental regulations and potential liability for emissions, waste management, and site remediation, which may result in financial penalties or operational restrictions.
- *Competition* – Neo faces competition from both established players and new entrants, and failure to maintain technological and cost advantages could impact market share.
- *Macroeconomic, Geopolitical, and Global Uncertainties* – Tariffs, trade disputes, global conflicts, and economic downturns may create demand fluctuations, supply chain disruptions, and financial market volatility, affecting Neo’s performance.

- *General Economic Conditions* – Broader economic factors such as inflation, interest rates, and business spending trends may indirectly impact Neo.
- *Currency Risk* – Neo operates globally and is exposed to foreign exchange fluctuations, which may affect revenue, costs, and financial results.
- *Financing Risks* – Neo's ability to secure funding for expansion or operational needs depends on market conditions, lender confidence, and financial health.
- *Interest Rate Risk* – Rising interest rates would increase borrowing and other costs, impacting profitability and investment decisions.
- *Liquidity Risk* – Adequate liquidity is essential for financial flexibility, and cash flow constraints could create financial pressure.
- *Rapid Technological Change* – Neo must continuously invest in R&D to remain competitive, as emerging technologies could impact demand for its products.
- *Business Ventures* – Managing business relationships requires alignment with partners on strategic objectives, and conflicts or operational inefficiencies could impact performance.
- *Intellectual Property* – Weaker enforcement in certain jurisdictions increases the risk of unauthorized use or replication of Neo's proprietary technology.
- *Intellectual Property Litigation* – Neo may face legal challenges related to patents or trade secrets, which could result in litigation costs or restrictions on product sales.

In addition to other information contained in this MD&A, readers should carefully consider the preceding risk factors and the section entitled "Risk Factors" in the 2024 AIF before investing in or trading common shares of Neo. All risk factors should be considered because they could cause Neo's actual results or financial condition to differ materially from those discussed in forward-looking statements contained elsewhere in this MD&A and the 2024 AIF. The preceding risk factors are not an all-inclusive listing of risks. Risks and uncertainties that are either not known to Neo or that Neo considers at this time to be immaterial or insignificant could also be detrimental to the ongoing affairs of Neo. If any of these risks occur, Neo's business, financial position, results of operations or cash flows could be materially adversely affected.

16. Legal Proceedings and Regulatory Actions

In the ordinary course of business, Neo and its subsidiaries occasionally face litigation claims, primarily concerning alleged intellectual property infringements. Neo manufactures and sells products utilizing scientific formulations and processes, which may lead competitors to assert patent infringement claims. The Company generally believes that it has meritorious defenses to the actions that have been brought against it and vigorously pursues the defense of each such action, including but not limited to initiated legal proceedings to revoke or invalidate the patents Neo is alleged to have infringed.

However, litigation outcomes are inherently unpredictable and may be even harder to predict for patent litigation since patents are issued separately by each country or applicable jurisdiction with different standards for infringement or invalidation, as well as differing levels of damages, including as a result of the number of customers and level of activity of Neo in a given country or jurisdiction. If multiple cases were decided adversely, Neo's operations, cash flows, prospects, or financial condition could be materially affected. In jurisdictions where an injunction or similar remedy is imposed, the Company may face significant disruption.

Refer to the 2024 AIF for additional information on on-going legal proceedings.

For the year ended December 31, 2024, no penalties or sanctions were imposed against Neo by a court relating to Canadian provincial and territorial securities legislation or by a securities regulatory authority.

17. Related Party Transactions

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

Neo's related party transactions are 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.

A summary of transactions with associates, with joint venture partners and any other related parties can be found in Note 24 to Neo's financial statements for the year ended December 31, 2024.

18. Accounting Policies and Critical Accounting Estimates, Assumptions and Judgements

Summary of Material Accounting Policies

A summary of material accounting policies can be found in Note 2 to Neo's financial statements for the year ended December 31, 2024.

Critical Accounting Estimates, Assumptions and Judgments

A summary of critical accounting estimates, assumptions and judgments can be found in Neo's financial statements for the year ended December 31, 2024.

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

Disclosure controls and procedures

Neo's Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") are responsible for establishing and maintaining disclosure controls and procedures ("**DC&P**") 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 DC&P as of December 31, 2024 and based on the evaluation, the CEO and CFO have concluded that Neo's 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. 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.

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.

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 December 31, 2024. 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 of December 31, 2024, management assessed that Neo's ICFR were effective.