



IBC Advanced Alloys

IBC ADVANCED ALLOYS CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Expressed in United States Dollars

DECEMBER 31, 2016



**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of IBC Advanced Alloys Corp. for the six months ended December 31, 2016 have been prepared by the management of the Company and approved by the Company's audit committee.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of the condensed consolidated interim financial statements by an entity's auditor.

IBC ADVANCED ALLOYS CORP.
Condensed Consolidated Interim Statements of Financial Position
(US dollars in thousands)

	Note	December 31 2016 \$	June 30 2016 \$
ASSETS			
Current assets			
Cash and cash equivalents	6	1,098	3,473
Receivables	7	1,818	2,204
Inventories	8	5,329	4,454
Prepaid expenses and deposits		868	534
Total current assets		9,113	10,665
Non-current assets			
Deposits		294	292
Property, plant, and equipment	9	5,963	6,344
Other assets		1	1
Total non-current assets		6,258	6,637
Total assets		15,371	17,302
LIABILITIES			
Current liabilities			
Lines of credit	11	2,577	1,682
Accounts payable and accrued liabilities	12, 18	2,743	3,159
Notes payable, related party	13, 18	300	375
Unearned revenue		1	3
Current portion of loan payable	13	1,115	1,149
Total current liabilities		6,736	6,368
Lease inducement	12	248	283
Total non-current liabilities		248	283
Total liabilities		6,984	6,651
EQUITY			
Share capital	14	52,636	52,499
Reserves	15	8,060	8,016
Accumulated deficit		(52,309)	(49,864)
Total equity		8,387	10,651
Total liabilities and equity		15,371	17,302

On behalf of the board of directors:

<u>“Mike Jarvis”</u> Mike Jarvis	Director	<u>“Mark Smith”</u> Mark Smith	Director
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See accompanying notes

IBC ADVANCED ALLOYS CORP.**Condensed Consolidated Interim Statements of Loss and Other Comprehensive Loss**

(US dollars in thousands, except for share and per share amounts)

	Note	Three months ended December 31		Six months ended December 31	
		2016	2015	2016	2015
		\$	\$	\$	\$
Revenue		3,571	3,324	6,834	7,556
Cost of revenue	8	3,290	4,109	7,032	8,018
Gross profit (loss)		281	(785)	(198)	(462)
Selling, general and administrative expenses					
Depreciation and amortization	9, 10	3	4	5	8
Director fees	18	27	25	54	50
Doubtful debts (recovery)		19	-	19	-
Investor relations		70	75	142	155
Office and miscellaneous		98	108	202	208
Professional fees		97	43	180	191
Public company costs		50	4	75	20
Rent		20	41	61	104
Salaries, wages and management fees	18	555	478	1,198	1,012
Share-based compensation	16	92	27	173	64
Travel, meals and entertainment		50	89	90	149
		1,081	894	2,199	1,961
Loss before other items		(800)	(1,679)	(2,397)	(2,423)
Other income (expense)					
Foreign exchange gain		-	2	12	15
Interest expense	11, 13	(47)	(42)	(89)	(83)
Gain on disposal of assets		(2)	-	(2)	-
Interest income		1	-	1	-
Other income		10	14	30	38
Loss before income taxes		(838)	(1,705)	(2,445)	(2,453)
Income tax (expense) recovery					
Current		-	(2)	-	(2)
Deferred		-	(67)	-	(40)
		-	(69)	-	(42)
Loss for the period, net of tax		(838)	(1,774)	(2,445)	(2,495)
Other comprehensive loss, net of tax					
Foreign currency translation		(5)	14	(85)	(4)
Total comprehensive loss, net of tax		(843)	(1,760)	(2,530)	(2,499)
Basic and diluted loss per common share	22	(0.03)	(0.18)	(0.08)	(0.25)
Weighted average number of common shares outstanding	22	30,157,934	9,808,492	30,070,901	9,808,492

See accompanying notes

IBC ADVANCED ALLOYS CORP.
Condensed Consolidated Interim Statements of Cash Flows
(US dollars in thousands)

Six months ended December 31	2016	2015
	\$	\$
Cash flows used in operating activities		
Loss for the period, net of tax	(2,445)	(2,495)
Adjustments for:		
Deferred income taxes	-	40
Share-based compensation	173	64
Non-cash gain on disposal of assets	2	-
Doubtful debts expense (recovery)	19	-
Depreciation and amortization	463	439
Unrealized foreign exchange loss	-	(6)
Interest income	(1)	-
Interest expense	89	83
Lease Inducement	(35)	(35)
Changes in non-cash working capital items:		
Receivables	367	(121)
Inventories	(875)	(180)
Prepaid expenses and deposits	(336)	(79)
Accounts payable and accrued liabilities	(325)	1,002
Unearned revenue	(1)	327
Cash used in operations, before tax	(2,905)	(961)
Income taxes	-	-
Net cash used in operating activities	(2,905)	(961)
Cash flows from financing activities		
Net line of credit advances	895	521
Interest paid	(90)	(83)
Borrowings, notes payable	(75)	-
Loan repayments	(34)	(32)
Issuance of shares	2	-
Net cash provided by (used in) financing activities	698	406
Cash flows used in investing activities		
Interest received	1	-
Purchase of property, plant and equipment	(84)	(37)
Net cash used in investing activities	(83)	(37)
Foreign exchange effect on cash	(85)	(41)
Change in cash during the period	(2,375)	(633)
Cash, beginning of period	3,473	948
Cash, end of period	1,098	315

See accompanying notes

IBC ADVANCED ALLOYS CORP.
Condensed Consolidated Interim Statement of Changes in Equity
(US dollars in thousands)

	Note	Share Capital \$	Reserves \$	Accumulated Deficit \$	Equity \$
At June 30, 2015		47,238	7,245	(45,934)	8,549
Foreign currency translation loss		-	(4)	-	(4)
Share-based compensation	16	-	64	-	64
Loss for the period		-	-	(2,495)	(2,495)
At December 31, 2015		47,238	7,305	(48,429)	6,114
At June 30, 2016		52,499	8,016	(49,864)	10,651
Foreign currency translation loss		-	(85)	-	(85)
Subscription received		2	-	-	2
Shares issued for services	14	135	-	-	135
Share-based compensation	16	-	129	-	129
Loss for the period		-	-	(2,445)	(2,445)
At December 31, 2016		52,636	8,060	(52,309)	8,387

See accompanying notes

IBC ADVANCED ALLOYS CORP.

Notes to the Condensed Consolidated Interim Financial Statements

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

1. Corporate Information

IBC Advanced Alloys Corp. ("IBC") was incorporated under the laws of British Columbia on December 11, 2002. IBC and its subsidiaries are collectively referred to as the "Company". The Company is primarily engaged in the production and development of specialty alloy products. The Company trades on the TSX Venture Exchange ("TSX-V") under the symbol "IB" and on the OTCQB International market under the symbol "IAALF".

The head office and principal address of the Company is 401 Arvin Road, Franklin, IN.

2. Basis of Presentation

a) Statement of compliance

These condensed consolidated interim financial statements for six-month period ended December 31, 2016 have been prepared in accordance with *IAS 34 – Interim Financial Reporting* and should be read in conjunction with the Company's June 30, 2016 audited annual financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's board of directors approved the release of these condensed consolidated interim financial statements on February 22, 2017.

b) Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies set out in the June 30, 2016 annual financial statements. The condensed consolidated interim financial statements are presented in United States dollars and all financial amounts, other than per-share amounts, are rounded to the nearest thousand dollars. The functional currency of the parent company is the Canadian dollar but the functional currency of the subsidiary companies is the United States dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

2. Basis of Presentation (continued)

c) Principles of consolidation

The condensed consolidated interim financial statements comprise the financial statements of IBC and its subsidiaries at December 31, 2016. The principal subsidiaries are:

Entity	Ownership Percentage	Location	Principal Activity
IBC US Holdings, Inc. ("IBC US")	100%	United States	Holding company
Freedom Alloys, Inc. ("Freedom")	100%	United States	Manufacturing
Nonferrous Products, Inc. ("Nonferrous")	100%	United States	Manufacturing
NF Industries, Inc.	100%	United States	Holding company
Specialloy Copper Alloys LLC ("Specialloy")	100%	United States	Manufacturing
IBC Engineered Materials Corp. ("EMC")	100%	United States	Manufacturing

Copper Alloys division consist of Freedom, Nonferrous, NF Industries, Inc., and Specialloy. Engineered Materials division consists of EMC.

d) Going concern of operations

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

As at December 31, 2016, the Company had not yet achieved profitable operations, incurred a loss of \$2,445 during the six months ended December 31, 2016 and, as of that date, the Company had accumulated losses of \$52,309 since inception. Furthermore, the Company expects to incur further losses in the development of its business, all of which cast significant doubt about the Company's ability to continue as a going concern.

The Company's continuing operations and its ability to discharge its liabilities and fulfill its commitments as they come due, is dependent upon the continued sales of the Company's products, the support of its bank and related parties, the ability of the Company to continue to obtain equity and debt financing and, ultimately, reaching and maintaining profitable operations at its production facilities. Management plans to continue to develop its production facilities to ensure the Company can generate sustainable, long-term profitability, and obtain additional financing.

Management believes the Company will be successful at securing additional funding, and, if it successfully reaches profitable operations at its production facilities, would continue as a going concern for the foreseeable future. The Company expects that it will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

If the Company is unable to obtain adequate additional funding, the Company would require the restatement of assets and liabilities on a liquidation basis, which would differ significantly from the going concern basis. These condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

IBC ADVANCED ALLOYS CORP.

Notes to the Condensed Consolidated Interim Financial Statements

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

3. Adoption of New Accounting Pronouncements and Recent Developments

Certain pronouncements, issued by the IASB or the IFRS Interpretations Committee, were adopted during the year, or were mandatory for the Company's fiscal years beginning on or after July 1, 2015 or are required to be adopted in future periods. The following pronouncements are relevant to the condensed consolidated interim financial statements, although none of these are expected to have a material effect on financial statement presentation:

New standards, interpretations and amendments not yet effective

a) IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace *IAS 39 - Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. On July 24, 2014, the IASB affirmed its proposal to deter the effective date of IFRS 9 to periods beginning after January 1, 2018. Earlier application of IFRS 9 continues to be permitted. The Company does not intend to early adopt this standard and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

b) IFRS 15 - Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board issued IFRS 15, Revenue from Contracts with Customers, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. IFRS 15 is effective January 1, 2018 and allows early adoption. The Company does not intend to early adopt this standard and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

c) IFRS 16 - Leases

IFRS 16 - Leases specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring that lessees recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has an insignificant value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and will be applicable to the Company's fiscal year beginning July 1, 2019, although early adoption is permitted. The Company has not yet assessed the impact of this standard or determined whether it will early adopt.

There are no other pending IFRSs or IFRIC interpretations that are expected to be relevant to the Company's financial statements.

IBC ADVANCED ALLOYS CORP.

Notes to the Condensed Consolidated Interim Financial Statements

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

4. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below.

The Company makes critical judgments in the determination of income taxes and critical estimates in computing the value of share-based transactions, depreciation and inventory.

5. Capital Management

The Company's primary objectives, when managing its capital, are to maintain adequate levels of funding to support the manufacturing operations of the Company and to maintain corporate and administrative functions. The Company defines capital as bank loans, other long-term debt, and equity, consisting of the issued common shares, stock options and warrants. The capital structure of the Company is managed to provide sufficient funding for manufacturing and other operating activities. Funds are primarily secured through a combination of equity capital raised by way of private placements and bank debt. There can be no assurances that the Company will be able to continue raising equity capital and bank debt in this manner.

The Company invests all capital that is surplus to its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term deposits, which are all held with major financial institutions.

The Company's bank agreements require that it maintain a minimum net worth and certain ratios indicating debt coverage and debt-to-tangible net worth. In addition, there are limitations on dividends and capital withdrawals, including intercompany transfers, with the result that IBC cannot receive funds from Copper Alloys.

There were no changes to the Company's approach to capital management during the six months ended December 31, 2016 from the year ended June 30, 2016.

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

6. Cash and Cash Equivalents

	December 31 2016 \$	June 30 2016 \$
Cash and cash equivalents	1,098	3,473

7. Receivables

	December 31 2016 \$	June 30 2016 \$
Trade accounts receivables	1,888	2,269
Allowance for doubtful accounts	(72)	(70)
Net trade accounts receivables	1,816	2,199
Other receivables	2	5
	1,818	2,204

At December 31, 2016, trade accounts receivable of \$1,517 (June 30, 2016 - \$1,958) held by Copper Alloys were pledged as collateral for bank loans (notes 11 and 13) and trade accounts receivable of \$301 (June 30, 2016 - \$231) held by EMC were pledged as collateral for notes payable (note 13). At December 31, 2016 and December 31, 2015, the Company made a full allowance for the collectability of past due receivables.

8. Inventories

	December 31, 2016			June 30, 2016		
	Cost \$	Valuation Provision \$	Net \$	Cost \$	Valuation Provision \$	Net \$
Raw Materials	3,129	(63)	3,066	2,987	(14)	2,973
Work in process	1,771	-	1,771	989	-	989
Finished goods	697	(205)	492	785	(293)	492
	5,597	(268)	5,329	4,761	(307)	4,454

As of December 31, 2016, the Company recognized a \$268 valuation provision (June 30, 2016 - \$307). At December 31, 2016, inventories of \$4,234 (June 30, 2016 - \$3,619) held by Copper Alloys were pledged as collateral for bank loans (notes 11 and 13) and inventories of \$1,095 (June 30, 2016 - \$835) held by EMC were pledged as collateral for notes payable (note 13).

During the six months ended December 31, 2016, cost of sales included materials of \$3,165 (December 31, 2015 - \$3,897) and \$1,693 during the three months ended December 31, 2016 (December 31, 2015 - \$1,997).

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

9. Property, Plant and Equipment

	Land	Machinery and Equipment	Vehicles	Leasehold Improve- ments	Furniture and Fixtures	Total
	\$	\$	\$	\$	\$	\$
Cost						
At June 30, 2015	510	8,796	52	4,596	159	14,113
Purchases	-	27	-	-	-	27
Disposals	-	(28)	-	-	-	(28)
At June 30, 2016	510	8,795	52	4,596	159	14,112
Purchases	-	84	-	-	-	84
Disposals	-	-	-	(2)	(27)	(29)
At December 31, 2016	510	8,879	52	4,594	132	14,167
Accumulated depreciation and impairment						
At June 30, 2015	-	5,246	44	1,475	159	6,924
Depreciation expense	-	587	2	283	-	872
Retirements	-	(28)	-	-	-	(28)
At June 30, 2016	-	5,805	46	1,758	159	7,768
Depreciation expense	-	326	1	136	-	463
Retirements	-	-	-	-	(27)	(27)
At December 31, 2016	-	6,131	47	1,894	132	8,204
Net book value						
At June 30, 2015	510	3,550	8	3,121	-	7,189
At June 30, 2016	510	2,990	6	2,838	-	6,344
At December 31, 2016	510	2,748	5	2,700	-	5,963

At December 31, 2016, the Company had pledged plant and equipment held by Copper Alloys with a net book value of \$3,138 (June 30, 2016 - \$3,436) as collateral for bank loans (notes 11 and 13). The Company has committed to purchase capital equipment at EMC in the amount of \$847 (note 19).

Presentation of the Company's depreciation and amortization expense, including amortization of intangible assets (note 10), is as follows:

	Three months ended		Six months ended	
	December 31		December 31	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cost of revenue	229	229	458	431
Selling, general and administrative expenses	3	4	5	8
Total depreciation and amortization expense	232	233	463	439

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

10. Intangible Assets

	Trade Names	Customer Relationships	Technology	Total
	\$	\$	\$	\$
Cost				
At June 30, 2015, June 30, 2016 and December 31, 2016	1,178	1,657	471	3,306
Accumulated amortization and impairment				
At June 30, 2015,	1,167	1,657	471	3,295
Amortization expense	11	-	-	11
At June 30, 2016 and December 31, 2016	1,178	1,657	471	3,306
Net book value				
At June 30, 2015	11	-	-	11
At June 30, 2016 and December 31, 2016	-	-	-	-

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

11. Line of Credit

	December 31 2016 \$	June 30 2016 \$
Line of credit with BMO Harris Bank (maximum \$3,500 - June 30, 2016 maximum of \$3,500) at one-month LIBOR plus 3.50% (LIBOR plus 3.50% at June 30, 2016), renewed at December 31, 2016 on substantially similar terms to January 31, 2017, collateralized by substantially all of Nonferrous' and Freedom's assets.	2,577	1,682
	<u>2,577</u>	<u>1,682</u>

In addition to the collateral provided by the operating subsidiaries, IBC has guaranteed this line of credit.

The Company's line of credit agreement with BMO Harris Bank requires that the Company maintain a minimum net worth and minimum debt coverage and debt-to-tangible net worth ratios. In addition, there are limitations on dividends and capital withdrawals. During the year ended June 30, 2016, the Company breached certain covenants associated with the line of credit. On January 31, 2017, BMO Harris Bank renewed the line of credit and waived the June 30, 2016 covenant violations. The line of credit was renewed on substantially the same terms as the prior agreement, but the interest rate was increased to one-month LIBOR plus 3.75%.

12. Accounts Payable and Accrued Liabilities

	December 31 2016 \$	June 30 2016 \$
Trade accounts payable	1,322	1,811
Employee payroll withholdings	196	220
Accrued liabilities	1,056	1,052
Lease inducement - current portion	71	71
Other liabilities	98	5
Accounts payable and accrued liabilities - current	<u>2,743</u>	<u>3,159</u>
Lease inducement - long-term	248	283

Under the terms of a facility lease entered into during the year ended June 30, 2011, the Company received a lease inducement of \$762 which is being amortized on a straight-line basis over the term of the lease. At December 31, 2016, the remaining lease inducement was \$319 (June 30, 2016 - \$354).

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

13. Loan and Notes Payable, Related Parties

	December 31 2016 \$	June 30 2016 \$
Loan payable to BMO Harris Bank in monthly payments of \$10 including interest at 4.98% per year to September 30, 2019, collateralized by substantially all the assets of Nonferrous, Specialalloy and Freedom.	1,115	1,149
Notes payable to related parties with monthly accrued interest at 10% per year, principal due February 4, 2017 and March 31, 2017; monthly accrued interest at 12% per year, principal due February 28, and March 13, 2017, secured by accounts receivable and inventory of Engineered Materials.	300	375
	<u>1,415</u>	<u>1,524</u>
Financial statement presentation:		
Current portion of loans payable	1,115	1,149
Notes payable, related parties	300	375
	<u>1,415</u>	<u>1,524</u>

In addition to the collateral provided by the operating subsidiaries, IBC has guaranteed the loan payable.

The Company's bank loan with BMO Harris Bank requires that the Company maintain a minimum net worth and minimum debt coverage and debt-to-tangible net worth ratios. During the year ended June 30, 2016, the Company breached certain covenants associated with the bank loan. On January 31, 2017, BMO Harris Bank renewed the loan and waived the June 30, 2016 covenant violations. The loan was renewed on substantially the same terms as the prior agreement.

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

14. Share Capital*Authorized capital*

Unlimited number of common shares without par value.

Unlimited number of preferred shares issuable in series without par value. The board of directors may determine the designations, rights, preferences or other variation of each class or series within the preferred shares.

Issued capital

No preferred shares.

	Note	Number of Shares	Common Shares \$
June 30, 2015		9,808,492	47,238
Private placement		18,861,557	5,500
Share issue for debt settlement		1,032,113	362
Finders' fee paid in units		233,000	-
Fair value of finders' warrants issued		-	(224)
Share issue costs		-	(377)
June 30, 2016		29,935,162	52,499
Subscription received		-	2
Shares issue for services		279,761	135
December 31, 2016		30,214,923	52,636

IBC ADVANCED ALLOYS CORP.

Notes to the Condensed Consolidated Interim Financial Statements

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

14. Share Capital (continued)

Fiscal 2017

In December 2016, the Company issued 52,927 of common shares for services to directors of the Company.

In September 2016, the Company issued 203,681 of common shares for services to an officer of the Company and in November 2016, the Company issued 23,153 of common shares for services to an officer of the Company.

Fiscal 2016

Effective May 24, 2016, the Company consolidated its share capital on the basis of one post-consolidation common share for every ten pre-consolidation common shares. The Company previously had 98,085,813 common shares issued and outstanding and had 9,808,492 common shares issued and outstanding on completion of the consolidation, after adjusting for rounding. All share and per-share amounts in these financial statements have been restated to reflect the effect of the consolidation.

In conjunction with the consolidation, the Company completed a non-brokered private placement of 19,893,670 post-consolidation units at C\$0.375 per unit for gross proceeds of \$5,500 (C\$7,460).

Each unit consists of one post-consolidation common share of IBC and one transferable share purchase warrant. Each warrant is exercisable to acquire an additional post-consolidation common share of IBC at a price of C\$0.50 until May 24, 2021. The warrants have an acceleration provision, so that in the event IBC trades at C\$2.50 or greater for 21 consecutive trading days at any time until May 24, 2018, warrant holders will have 60 days to exercise their warrants, failing which the warrants will expire. The securities issued were subject to a hold period that expired September 25, 2016.

The Company paid finders' fees on the private placement \$377 (of which \$67 was paid through the issuance of 233,000 units with the same terms as the private placement) and on May 24, 2016, the Company granted 907,000 finders' warrants to purchase common shares at an exercise price of C\$0.375 per share for a period of five years to a company owned by a director with a fair estimate value of \$224 using the Black-Scholes pricing model with the following assumptions: dividend yield of 0.0%; annualized stock price volatility of 55.28%; a term expected life of 5 years; and a risk free interest rate of 1.92%.

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

15. Reserves

Reserves comprise the fair value of stock option grants and warrants prior to exercise and cumulative unrealized gains and losses on foreign exchange.

	Warrants	Share-based compensation reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$
At June 30, 2015	300	6,808	137	7,245
Foreign currency translation reserve	-	-	25	25
Fair value of finders' warrants issued	224	-	-	224
Share-based compensation	-	522	-	522
At June 30, 2016	524	7,330	162	8,016
Foreign currency translation reserve	-	-	(85)	(85)
Share-based compensation	-	129	-	129
At December 31, 2016	524	7,459	77	8,060

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

16. Share-Based Payments

IBC's board of directors has adopted a rolling stock option plan, subsequently amended and approved by shareholders, under which the Company is authorized to grant options to directors, employees and consultants to acquire up to 10% of the issued and outstanding common shares. The exercise price of each option is based on the market price of the Company's stock for a period preceding the date of grant. The options can be granted for a maximum term of ten years and vest as determined by the board of directors. The Company's practice is to issue share options with a term of five years that vest in increments over a three-year period. The Company's shares trade in Canadian dollars and options granted to date have been denominated in Canadian funds.

The Company's shareholders re-approved the stock option plan at the December 2016 shareholders' meeting.

Option Grants

A summary of stock option activity to December 31, 2016 is as follows:

	Stock Options Outstanding	Weighted Average Exercise Price C\$
June 30, 2015	781,500	1.60
Expired	(6,000)	13.47
Forfeited	(56,500)	1.89
Granted	1,768,500	0.60
At June 30, 2016	2,487,500	0.85
Expired	(112,500)	1.46
At December 31, 2016	2,375,000	0.82

During the six months ended December 31, 2016, the Company recognized share-based compensation of \$173 (December 31, 2015 - \$64) and \$92 during the three months ended December 31, 2016 (December 31, 2015 - \$27).

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

16. Share-Based Payments (continued)

At December 31, 2016, the Company had outstanding and exercisable stock options as follows:

Exercise Price	Outstanding Options			Exercisable Options	
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
C\$			C\$		C\$
0.37	907,000	4.49 years	0.37	907,000	0.37
0.77	741,500	4.49 years	0.77	185,375	0.77
1.20	120,000	3.65 years	1.20	60,000	1.20
1.40	138,500	1.97 years	1.40	187,250	1.40
1.50	468,000	1.98 years	1.50	445,750	1.50
	2,375,000	3.66 years	0.82	1,785,375	0.83

The weighted average grant-date fair value of options awarded in the six months ended December 31, 2016 was C\$0.82. The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions to determine share-based compensation:

	2016	2015
Annualized stock price volatility	172%	105%
Risk-free interest rate	0.60%	0.88%
Expected option lives	3.2 years	2.8 years
Dividend yield	0.0%	0.0%

There is a rebuttable presumption for non-employees under *IFRS 2 - Share Based Payments* that share-based awards for goods and services should be valued based on the fair value of the goods or services provided, not the computed value of the share-based award. The Company has employed an equity-based approach to determining the value of certain option awards as the parties concerned normally provide their services for a combination of cash and share options, with the result that there is not a reliable measure of market compensation on a cash-payment basis only.

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

17. Warrants

	Financing Warrants		Broker Warrants	
	Warrants Outstanding	Weighted Average Exercise Price C\$	Warrants Outstanding	Weighted Average Exercise Price C\$
At June 30, 2015	3,141,700	1.94	209,129	1.69
Issued	20,126,670	0.50	907,000	-
Expired	(2,266,700)	2.00	(102,729)	2.40
At June 30, 2016 and December 31, 2016	21,001,670	0.55	1,013,400	0.44

At December 31, 2016, warrants were outstanding enabling holders to acquire common shares or units as follows:

Number of Financing Warrants	Number of Broker Warrants	Exercise Price C\$	Expiry Date
800,000	-	1.80	June 10, 2017
-	105,350	1.00	June 10, 2017
75,000	-	1.80	June 18, 2017
-	1,050	1.00	June 18, 2017
20,126,670	907,000	0.375	May 24, 2021
21,001,670	1,013,400		

The Company has not assigned any value to financing warrants issued as part of unit financings as, in most cases, the pricing of the units was determined by reference to the Company's share price and no premium was attributed to the attached warrant rights. In some instances, a value was assigned to the warrant in offering documents, but the value was not material.

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

18. Related Party Transactions

Key management personnel compensation was:

	Three months ended		Six months ended	
	December 31		December 31	
	2016	2015	2016	2015
	\$	\$	\$	\$
Short-term employee benefits	398	218	709	443
Share-based payments	74	19	225	46
	472	237	934	489

The short-term employee benefits were paid or accrued directly to employees and directors of the Company.

As at December 31, 2016, \$173 (June 30, 2016 - \$220) is owing to directors and officers for services and \$7 (June 30, 2016 - \$9) is owing to officers for expenses paid on the Company's behalf.

As at December 31, 2016, \$300 (June 30, 2016 - \$375) is owing to a director and officer and individuals related to him for notes payable principal and interest (note 13). During the six months ended December 31, 2016, the Company incurred interest expense of \$18 (December 31, 2015 - \$nil) and \$9 during the three months ended December 31, 2016 (December 31, 2015 - \$nil) on amounts due to related parties.

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

19. Commitments and Contingencies

The Company has entered into commercial property leases. These leases have an average remaining life of 3.6 years, with no renewal options. The future minimum rental payments under non-cancellable operating leases at December 31, 2016 are:

Period ending June 30	\$
2017	269
2018	539
2019	539
2020	509
Subsequent	257
	<u>2,113</u>

The Company is contractually committed to purchase, at December 31, 2016 prices, an aggregate of \$122 (June 30, 2016 - \$1,326) in raw materials. The contract periods do not coincide with the Company's fiscal year, but the estimated commitment in each fiscal period is as follows:

Period ending June 30	\$
2017	122

The Company is contractually committed to paying \$30 to a company providing consulting services if certain contractual requirements are met. The Company has agreed to settle this commitment through the issuance of 3,333 common shares, which has been approved by the TSX-V but the common shares have not been issued at the date of these financial statements.

The Company has committed to purchase capital equipment at EMC in the amount of \$847 and \$125 at Copper Alloys. These purchases are expected to be completed within the current fiscal year.

The Company had no contingent liabilities at December 31, 2016 or June 30, 2016.

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

20. Segment Reporting

As at December 31, 2016, the Company had three reportable segments: copper alloys, engineered materials and corporate. As at December 31, 2016, the Company had two manufacturing segments: Copper Alloys and Engineered Materials. The manufacturing segments produce beryllium copper, Beralcast[®] and other specialty alloy products; and corporate oversees and administers the operating divisions. In prior periods, the Company also had R&D and mineral properties segments but these are no longer material and are incorporated into the corporate segment.

The accounting policies of the segments are the same as described in note 3 of the June 30, 2016 audited consolidated financial statements. IBC's management evaluates performance based on profit or loss from operations before other items ("operating income (loss)").

	Copper Alloys	Engineered Materials	Corporate	Total
	\$	\$	\$	\$
Three months ended December 31, 2016				
Revenue from external customers	2,623	948	-	3,571
Depreciation and amortization	149	83	-	232
Share-based compensation	13	9	70	92
Interest expense	38	9	-	47
Other income	-	-	10	10
Operating loss	(38)	(296)	(466)	(800)
Foreign exchange gain				-
Interest expense				(47)
Gain on disposal of assets				(2)
Interest income				1
Other income				10
Loss before income taxes				(838)
Income tax expense	-	-	-	-
Capital expenditures	-	63	-	63

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

20. Segment Reporting (continued)

	Copper Alloys	Engineered Materials	Corporate	Total
	\$	\$	\$	\$
Three months ended December 31, 2015				
Revenue from external customers	2,524	800	-	3,324
Depreciation and amortization	110	87	-	197
Share-based compensation	4	3	20	27
Interest expense	42	-	-	42
Other income	-	-	-	-
Operating income (loss)	(770)	(654)	(255)	(1,679)
Foreign exchange gain				2
Interest expense				(42)
Other income				14
Loss before income taxes				(1,705)
Income tax recovery (expense)	(69)	-	-	(69)
Capital expenditures	7	15	-	22
Six months ended December 31, 2016				
Revenue from external customers	5,288	1,546	-	6,834
Depreciation and amortization	297	166	-	463
Share-based compensation	26	18	129	173
Interest expense	71	18	-	89
Other income	-	-	30	30
Loss before other items	(536)	(955)	(906)	(2,397)
Foreign exchange gain				12
Interest expense				(89)
Gain on disposal of assets				(2)
Interest income				1
Other income				30
Loss before income taxes				(2,445)
Income tax recovery (expense)	-	-	-	-
Capital expenditures	-	84	-	84

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

20. Segment Reporting (continued)

	Copper Alloys	Engineered Materials	Corporate	Total
	\$	\$	\$	\$
Six months ended December 31, 2015				
Revenue from external customers	5,726	1,830	-	7,556
Depreciation and amortization	264	174	1	439
Share-based compensation	9	13	42	64
Interest expense	83	-	-	83
Other income	-	-	38	38
Loss before other items	(947)	(867)	(609)	(2,423)
Foreign exchange gain				15
Interest expense				(83)
Other income				38
Loss before income taxes				(2,453)
Income tax recovery	(2)	(115)	75	(42)
Capital expenditures	22	15	-	37

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

20. Segment Reporting (continued)

Total assets employed by each division are:

	December 31 2016 \$	June 30 2016 \$
Copper Alloys	9,206	9,123
Engineered Materials	5,073	4,820
Corporate	1,092	3,359
	15,371	17,302

Substantially all of the Company's long-lived assets are located in the United States.

The geographical division of the Company's revenues based on the customer's country of origin is as follows:

	Three months ended December 31		Six months ended December 31	
	2016	2015	2016	2015
	\$	\$	\$	\$
North America	2,433	3,247	5,327	7,183
Europe	351	49	460	166
Asia	787	28	1,047	207
	3,571	3,324	6,834	7,556

The following customers represented more than 10% of sales:

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
	\$		\$	
Customer A	-	-	1,394	18.8
Customer B	896	13.1	-	-

Property, plant and equipment and intangible assets	December 31	June 30
	2016	2016
	\$	\$
United States	5,963	6,342
Canada	-	2
	5,963	6,344

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

21. Financial Risk Management

The Company's activities expose it to a variety of financial risks, including foreign exchange risk, interest rate risk, commodity price risk, credit risk and liquidity risk. From time to time, the Company may use foreign exchange contracts, commodity price contracts and interest rate swaps to manage exposure to fluctuations in foreign exchange, metal prices and interest rates. The Company does not have a practice of trading derivatives.

Capital Management

The board of directors has overall responsibility for the establishment and oversight of the Company's capital management framework. The board of directors has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed and updated to reflect changes in market conditions and the Company's activities.

Fair Values

The Company's financial instruments classified as level 1 use quoted prices in active markets including cash and cash equivalents and interest rate swaps. The Company does not hold any financial instruments subject to level 2 or 3 fair value measurements. There were no changes in level 1, 2, or 3 financial instruments during the six months ended December 31, 2016.

Foreign Exchange Risk

Most of the Company's activities are in the United States, but the Company conducts business in other countries from time to time. The principal foreign exchange risk exposure arises from transactions denominated in Canadian dollars. The Company had maintained a corporate office in Canada which the Company closed in September 2016.

As at December 31, 2016 with other variables unchanged, a 1% increase (decrease) in the Canadian dollar would increase (decrease) net earnings by approximately \$nil (June 30, 2016 - \$3).

Exposure to the Canadian dollar on financial instruments is as follows:

<hr/>	
Balances at December 31, 2016	
<hr/>	
Cash and cash equivalents	188
Receivables	-
Accounts payable and accrued liabilities	538
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Balances at June 30, 2016	
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Cash and cash equivalents	540
Receivables	15
Accounts payable and accrued liabilities	257
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IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

21. Financial Risk Management (continued)*Interest Rate Risk*

The Company's interest rate risk mainly arises from the interest rate impact on cash and cash equivalents and interest expense on the BMO Harris Bank line of credit. Cash and cash equivalents receive interest based on market interest rates. The Company's term loan has a fixed interest rate and is not exposed to interest rate risk.

As at December 31, 2016, with other variables unchanged, a 1% increase (decrease) in the interest paid on the BMO Harris Bank line of credit would decrease (increase) earnings by approximately \$nil (December 31, 2015 - \$16).

Commodity Price Risk

The Company's profitability depends, in part, on the market prices of copper, aluminum and beryllium. The market prices for metals can be volatile and are affected by factors beyond the Company's control, including: global or regional consumption patterns; the supply of, and demand for, these metals; speculative activities; the availability and costs of metal substitutes; expectations for inflation; and political and economic conditions, including interest rates and currency values. The Company cannot predict the effect of these factors on metal prices. The Company does not engage in hedging but, where possible, structures selling arrangements in a way that passes commodity price risk through to the customer.

Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's credit risk arises primarily with respect to its trade accounts receivable.

The Company manages credit risk by trading with recognized creditworthy third parties and insuring trade receivables. In addition, receivable balances are monitored on an on-going basis with the result that the Company's exposure to bad debt is not significant.

The Company also manages its credit risk by investing its cash only in obligations of Canada or the United States or their respective agencies, obligations of enterprises sponsored by any of the above governments; bankers' acceptances purchased in the secondary market and having received the highest credit rating from a recognized rating agency in Canada or the United States, with a term of less than 180 days; and bank term deposits and bearer deposit notes, with a term of less than 180 days.

The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents, and receivables.

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

21. Financial Risk Management (continued)*Liquidity Risk*

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances. If necessary, it may raise funds through the issuance of debt, equity, or monetization of non-core assets. To ensure that there is sufficient capital to meet obligations, the Company continuously monitors and reviews actual and forecasted cash flows and matches the maturity profile of financial assets to development, capital and operating needs.

December 31, 2016	Less than three months \$	Three to 12 months \$	One to five years \$	Total \$
Trade and other payables	2,332	411	-	2,743
Line of credit	2,577	-	-	2,577
Notes payable, related party	-	300	-	300
Loan	1,115	-	-	1,115
	6,024	711	-	6,735

June 30, 2016	Less than three months \$	Three to 12 months \$	One to five years \$	Total \$
Trade and other payables	2,753	406	-	3,159
Line of credit	1,682	-	-	1,682
Notes payable, related party	-	375	-	375
Loan	1,149	-	-	1,149
	5,584	781	-	6,365

See notes 11 and 13 for contractual undiscounted cash flow requirements for the line of credit and loan payable as at December 31, 2016.

Fair Value

The fair value of the Company's financial assets and financial liabilities approximate the carrying value due to the short-term maturities of the instruments.

IBC ADVANCED ALLOYS CORP.**Notes to the Condensed Consolidated Interim Financial Statements**

(US dollars in thousands, except for share and per share amounts)

For the Six Months Ended December 31, 2016

22. Loss Per Share

	Three months ended		Six months ended	
	December 31		December 31	
	2016	2015	2016	2015
Loss for the period (\$000)	(838)	(1,774)	(2,445)	(2,495)
Weighted average number of common shares outstanding	30,157,934	9,808,492	30,070,901	9,808,492
Loss per share, basic and diluted (\$ per share)	(0.03)	(0.18)	(0.08)	(0.25)

Diluted loss per share for the periods ended December 31, 2016 and 2015 is the same as basic loss per share as the exercise of the 2,375,000 share options (December 31, 2015 – 894,500) and 22,015,070 warrants (December 31, 2015 – 3,350,829) would be anti-dilutive.