



IBC Advanced Alloys

**IBC ADVANCED ALLOYS CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

Expressed in United States Dollars

**JUNE 30, 2017**



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200 Ottawa Avenue NW, Suite 300  
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## Independent Auditor's Report

Board of Directors and Shareholders  
IBC Advanced Alloys Corp.  
Franklin, Indiana, USA

We have audited the accompanying consolidated financial statements of IBC Advanced Alloys Corp. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as of June 30, 2017, and the related consolidated statements of loss and other comprehensive loss, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of IBC Advanced Alloys Corp. and its subsidiaries as of June 30, 2017, and the results of their operations and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

### *Emphasis of Matter Regarding Going Concern*

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations, is not currently in compliance with certain loan covenants for which the bank has not provided a waiver, and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### *Other Matter*

The financial statements of IBC Advanced Alloys Corp. for the year ended June 30, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on October 25, 2016.

*BDO USA, LLP*

Grand Rapids, Michigan  
October 30, 2017

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

	Note	June 30 2017 \$	June 30 2016 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	6	100	3,473
Receivables, net of provision for impairment	7	2,428	2,204
Inventories, net of provision for impairment	8	4,830	4,454
Prepaid expenses and deposits		148	534
<b>Total current assets</b>		<b>7,506</b>	<b>10,665</b>
<b>Non-current assets</b>			
Deposits		294	292
Property, plant and equipment	9	7,096	6,344
Other assets		1	1
<b>Total non-current assets</b>		<b>7,391</b>	<b>6,637</b>
<b>Total assets</b>		<b>14,897</b>	<b>17,302</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Line of credit	11	2,600	1,682
Accounts payable and accrued liabilities	12, 19	3,102	3,159
Notes payable, related party	13, 19	300	375
Unearned revenue		534	3
Loan payable	13	1,080	1,149
Arbitration award liability	12, 22, 24	1,395	-
<b>Total current liabilities</b>		<b>9,011</b>	<b>6,368</b>
<b>Non-current liabilities</b>			
Lease inducement	12	213	283
<b>Total liabilities</b>		<b>9,224</b>	<b>6,651</b>
<b>EQUITY</b>			
Share capital	15	52,686	52,499
Reserves	16	8,213	8,016
Accumulated deficit		(55,226)	(49,864)
<b>Total equity</b>		<b>5,673</b>	<b>10,651</b>
<b>Total liabilities and equity</b>		<b>14,897</b>	<b>17,302</b>

On behalf of the board of directors:

<u>"Mike Jarvis"</u>	Director	<u>"Mark Smith"</u>	Director
Mike Jarvis		Mark Smith	

See accompanying notes

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

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

Year ended June 30	Note	2017 \$	2016 \$
<b>Revenue</b>		15,715	16,374
<b>Cost of revenue</b>	9	15,448	16,344
<b>Gross profit</b>		267	30
<b>Selling, general and administrative expenses</b>			
Depreciation and amortization	9, 10	-	24
Director fees, cash portion	19	40	(73)
Doubtful debts		4	75
Investor relations		182	306
Office and miscellaneous		394	377
Professional fees		271	388
Public company costs		91	57
Research		-	24
Rent		183	182
Salaries, wages and management fees	19	2,060	2,187
Share-based compensation and services	17	244	522
Travel, meals and entertainment		172	222
		3,641	4,291
<b>Loss before other items</b>		(3,374)	(4,261)
<b>Other income (expense)</b>			
Foreign exchange gain (loss)		(54)	15
Interest expense	11, 13	(194)	(178)
Loss on disposal of assets		(294)	-
Interest income		1	4
Other income (expense)		(27)	57
Arbitration award liability	12, 22, 24	(1,395)	-
<b>Loss before income taxes</b>		(5,337)	(4,363)
<b>Income tax (expense) recovery</b>			
Current		(25)	4
Deferred		-	429
		(25)	433
<b>Loss for the period, net of tax</b>		(5,362)	(3,930)
<b>Other comprehensive loss, net of tax</b>			
Foreign currency translation		(4)	25
<b>Total comprehensive loss, net of tax</b>		(5,366)	(3,905)
<b>Basic and diluted loss per common share</b>	23	(0.18)	(0.33)
<b>Weighted average number of common shares outstanding</b>	23	30,184,165	11,843,155

See accompanying notes

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

Year ended June 30	2017	2016
	\$	\$
<b>Cash flows used in operating activities</b>		
Loss for the period, net of tax	(5,362)	(3,930)
Adjustments for:		
Deferred income taxes	-	(429)
Share-based compensation and share-based services	244	522
Non-cash loss on disposal of assets	294	-
Doubtful debts expense	4	75
Depreciation and amortization	747	883
Interest income	(1)	(4)
Interest expense	194	178
Lease Inducement	(72)	(72)
Changes in non-cash working capital items:		
Receivables	(228)	(471)
Inventories	(376)	775
Prepaid expenses and deposits	387	(214)
Accounts payable and accrued liabilities	83	1,287
Unearned revenue	531	(172)
Other assets	-	6
Arbitration award	1,395	-
Cash used in operations, before tax	(2,160)	(1,566)
Income taxes	-	-
Net cash used in operating activities	(2,160)	(1,566)
<b>Cash flows from financing activities</b>		
Net line of credit advances and (repayments)	918	(1,166)
Interest paid	(195)	(178)
Notes payable, related party borrowings and (repayments)	(75)	375
Loan repayments	(69)	(65)
Subscription received	2	-
Private placement	-	5,500
Share issued costs	-	(377)
Net cash provided by financing activities	581	4,089
<b>Cash flows used in investing activities</b>		
Interest received	1	4
Purchase of property, plant and equipment	(1,791)	(27)
Net cash used in investing activities	(1,790)	(23)
<b>Foreign exchange effect on cash</b>	(4)	25
<b>Change in cash during the period</b>	(3,373)	2,525
<b>Cash, beginning of period</b>	3,473	948
<b>Cash, end of period</b>	100	3,473

See accompanying notes

**IBC ADVANCED ALLOYS CORP.**  
**Consolidated 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 gain		-	25	-	25
Private placement		5,500	-	-	5,500
Fair value of broker warrants issued		(224)	224	-	-
Share issue costs		(377)	-	-	(377)
Share issued for debt settlement	15	362	-	-	362
Share-based compensation	17	-	522	-	522
Loss for the period		-	-	(3,930)	(3,930)
At June 30, 2016		52,499	8,016	(49,864)	10,651
Foreign currency translation loss		-	(4)	-	(4)
Subscription received		2	-	-	2
Shares for services	15	185	48	-	233
Share-based compensation	17	-	153	-	153
Loss for the period		-	-	(5,362)	(5,362)
At June 30, 2017		52,686	8,213	(55,226)	5,673

**See accompanying notes**

## **IBC ADVANCED ALLOYS CORP.**

### **Notes to the Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

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#### **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, Indiana.

#### **2. Basis of Presentation**

##### **a) Statement of compliance**

These consolidated financial statements have been 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 consolidated financial statements on October 30, 2017.

##### **b) Basis of measurement**

These consolidated 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 note 25. The consolidated 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 Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

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**2. Basis of Presentation (continued)**

## c) Going concern of operations

These consolidated 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 June 30, 2017, the Company had not yet achieved profitable operations, incurred a loss of \$5,362 during the year ended June 30, 2017 and, as of that date, the Company had accumulated losses of \$55,226 since inception and was in breach of certain bank covenants related to its line of credit and term loan facility which had not been rectified by the date of these financial statements. As a result, the Company's line of credit and term loan are due on demand. 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, ability to discharge its liabilities and fulfill its commitments as they come due are dependent upon several factors. These factors include continued sales of the Company's products, the support of its bank and related parties, and the ability of the Company to continue to obtain equity and debt financing. The Company's continuing operations is dependent, ultimately, upon 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 consolidated 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 Consolidated Financial Statements

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

For the Year Ended June 30, 2017

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### 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 consolidated 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 defer 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. Due to the nature of the company's operations, the adoption of IFRS 9 and the recognition of expected credit losses will impact the Company's provision for impairment related to its receivables from customers.

##### 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. This standard is effective January 1, 2017 and allows early adoption. On July 22, 2015, the IASB unanimously affirmed its proposal to defer the effective date of IFRS 15 to periods beginning after January 1, 2018. Earlier application of IFRS 15 continues to be permitted. The Company does not intend to early adopt this standard. This standard is not expected to materially affect the Company's Consolidated Statements of Loss and Other Comprehensive Loss, but is expected to require additional disclosures.

##### 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 does not intend to early adopt this standard and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

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 Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

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#### **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.

##### *Share-based payment transactions*

The Company measures the cost of equity-settled transactions with employees and non-employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 17.

##### *Income taxes*

The Company must exercise judgment in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for expected tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

## **IBC ADVANCED ALLOYS CORP.**

### **Notes to the Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

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#### **4. Critical Accounting Estimates and Judgments (continued)**

##### *Useful lives of intangible assets and property, plant and equipment*

Intangible assets and property, plant and equipment are amortized or depreciated over their useful lives. Useful lives are based on management's estimate of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of loss and other comprehensive loss in specific periods. More details including carrying values are included in notes 9 and 10.

##### *Inventory*

The Company reviews the net realizable value of, and demand for, its inventory on a quarterly basis to provide assurance that recorded inventory is stated at the lower of cost or net realizable value. Factors that could impact estimated demand and selling prices include the timing and success of future technological innovations, competitor actions, supplier prices and economic trends.

##### *Segmented reporting*

The Company must exercise judgement in defining its business segments (note 21) and allocating revenue, expenses and assets among the segments. The Company bases allocations on the groupings used to manage the business and report to senior management. From time to time, assets and personnel of one division may be used to benefit another division resulting in inaccuracies, but these are not material.

##### *Consolidation*

The Company makes judgements about whether subsidiaries should be consolidated or not and in particular about whether IBC has control of a subsidiary. All of IBC's subsidiaries are wholly owned, directly or indirectly, and IBC is able to exert control over those subsidiaries.

#### **5. 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. There were no changes to the Company's approach to capital management during the year ended June 30, 2017 from the year ended June 30, 2016.

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 short-term and 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 debt and equity capital raised by way of private placements. 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 imposed bank restrictions that currently prevent the Company from transferring funds from Copper Alloys to our other segments.

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

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

For the Year Ended June 30, 2017

**6. Cash**

	June 30 2017	June 30 2016
	\$	\$
Cash	100	3,473

**7. Receivables**

	June 30 2017	June 30 2016
	\$	\$
Trade accounts receivable	2,438	2,269
Provision for impairment	(13)	(70)
Net trade accounts receivable	2,425	2,199
Other receivables	3	5
	2,428	2,204

At June 30, 2017, trade accounts receivable of \$2,042 (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 \$386 (June 30, 2016 - \$231) held by EMC were pledged as collateral for notes payable (note 13). At June 30, 2017 and June 30, 2016, the Company made a full allowance for the collectability of receivables that extended beyond the agreed-upon payment terms with customers.

**8. Inventories**

	June 30, 2017			June 30, 2016		
	Cost	Valuation Provision	Net	Cost	Valuation Provision	Net
	\$	\$	\$	\$	\$	\$
Raw Materials	3,257	(20)	3,237	2,987	(14)	2,973
Work in process	1,202	-	1,202	989	-	989
Finished goods	529	(138)	391	785	(293)	492
	4,988	(158)	4,830	4,761	(307)	4,454

As of June 30, 2017, the Company recognized a \$158 valuation provision (June 30, 2016 - \$307). At June 30, 2017, inventories of \$3,308 (June 30, 2016 - \$3,619) held by Copper Alloys were pledged as collateral for bank loans (notes 11 and 13) and inventories of \$1,522 (June 30, 2016 - \$835) held by EMC were pledged as collateral for notes payable (note 13).

During the year ended June 30, 2017, cost of sales included materials of \$7,182 (June 30, 2016 - \$6,929), and labor of \$3,286 (June 30, 2016 - \$3,336).

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

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

For the Year Ended June 30, 2017

**9. Property, Plant and Equipment**

	Land	Machinery and Equipment	Vehicles	Leasehold Improve- ments	Furniture and Fixtures	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
At June 30, 2015	510	8,796	52	4,596	159	14,113
Reallocation of a prior year impairment	-	(508)	(43)	72	(34)	(513)
At June 30, 2015, reallocated	510	8,288	9	4,668	125	13,600
Purchases	-	27	-	-	-	27
Disposals	-	(13)	-	-	(15)	(28)
At June 30, 2016	510	8,302	9	4,668	110	13,599
Purchases	-	1,791	-	-	-	1,791
Disposals	-	(496)	-	-	(27)	(523)
At June 30, 2017	510	9,597	9	4,668	83	14,867
<b>Accumulated depreciation and impairment</b>						
At June 30, 2015	-	5,246	44	1,475	159	6,924
Reallocation of a prior year impairment	90	(520)	(43)	5	(45)	(513)
At June 30, 2015, reallocated	90	4,726	1	1,480	114	6,411
Depreciation expense	-	580	2	283	6	871
Disposals	-	(12)	-	-	(15)	(27)
At June 30, 2016	90	5,294	3	1,763	105	7,255
Depreciation expense	-	492	2	250	3	747
Disposals	-	(204)	-	-	(27)	(231)
At June 30, 2017	90	5,582	5	2,013	81	7,771
<b>Net book value</b>						
At June 30, 2015	420	3,562	8	3,188	11	7,189
At June 30, 2016	420	3,008	6	2,905	5	6,344
At June 30, 2017	420	4,015	4	2,655	2	7,096

At June 30, 2017, the Company had pledged property, plant, and equipment held by Copper Alloys with a net book value of \$3,407 (June 30, 2016 - \$3,436) as collateral for bank loans (notes 11 and 13).

Impairment balances related to our Specialloy subsidiary (note 25) were reallocated in both cost and accumulated depreciation and impairment. There was no impact to the Consolidated Statements of Loss and Other Comprehensive Loss, nor was there an impact to the Consolidated Statements of Cash Flows.

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

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

For the Year Ended June 30, 2017

**9. Property, Plant, and Equipment (continued)**

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

Year ended June 30	2017	2016
	\$	\$
Cost of revenue	747	859
Selling, general and administrative expenses	-	24
Total depreciation and amortization expense	747	883

**10. Intangible Assets**

	Trade Names	Customer Relationships	Technology	Total
	\$	\$	\$	\$
<b>Cost</b>				
At June 30, 2015, June 30, 2016 and June 30, 2017	1,178	1,657	471	3,306
<b>Accumulated amortization and impairment</b>				
At June 30, 2015,	1,167	1,657	471	3,295
Amortization expense	11	-	-	11
At June 30, 2016 and June 30, 2017	1,178	1,657	471	3,306
<b>Net book value</b>				
At June 30, 2015	11	-	-	11
At June 30, 2016 and June 30, 2017	-	-	-	-

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

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

For the Year Ended June 30, 2017

**11. Line of Credit**

	June 30 2017 \$	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 3.75% (LIBOR plus 3.50% at June 30, 2016), renewed at January 31, 2017 on substantially similar terms to January 31, 2018, collateralized by substantially all of Nonferrous' and Freedom's assets. (Note 25)	2,600	1,682
	<u>2,600</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, 2017, the Company breached certain covenants associated with the line of credit and term loan (note 13), which were not resolved at the date of these financial statements. As a result, the Company's line of credit facility and term loan are due on demand. No call has been made. 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**

	June 30 2017 \$	June 30 2016 \$
Trade accounts payable	1,315	1,811
Employee wages and payroll withholdings	135	220
Accrued liabilities	1,580	1,052
Lease inducement - current portion	72	71
Other liabilities	-	5
Accounts payable and accrued liabilities - current	<u>3,102</u>	<u>3,159</u>
Arbitration award liability	1,395	-
Lease inducement - long-term	213	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 June 30, 2017, the remaining lease inducement was \$284 (June 30, 2016 - \$354).

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

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

For the Year Ended June 30, 2017

**13. Loan and Notes Payable, Related Party**

	June 30 2017 \$	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, Specialloy and Freedom. (Note 25)	1,080	1,149
Notes payable to related parties with monthly accrued interest at 10% per year, principal due February 4, 2018 and March 27, 2018; monthly accrued interest at 12% per year, principal due February 28, 2018 and March 13, 2018, secured by accounts receivable and inventory of Engineered Materials.	300	375
	<u>1,380</u>	<u>1,524</u>
Financial statement presentation:		
Current portion of loans payable	1,080	1,149
Notes payable, related parties	300	375
	<u>1,380</u>	<u>1,524</u>

In addition to the collateral provided by the operating subsidiaries, IBC US 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, 2017, the Company breached certain covenants associated with the line of credit and term loan (note 11), which were not resolved at the date of these financial statements. As a result, the Company's line of credit facility and term loan are due on demand. No call has been made. 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 Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

**14. Income Taxes**

The material components of the income tax expense for the years ended June 30, 2017 and 2016 are as follows:

Year ended June 30	2017	2016
	\$	\$
Current tax (expense) recovery		
Current tax on profit (recovery on loss) for the period	(25)	4
Deferred tax expense		
Deferred tax recovery	-	429
Total income tax (expense) recovery	(25)	433

The difference between tax recovery for the year and the expected income taxes based on the statutory tax rate arises as follows:

Year ended June 30	2017	2016
	\$	\$
Loss before income taxes	(5,337)	(4,363)
Tax recovery based on the statutory rate of 26% (2016 - 26%)	(1,394)	1,134
Foreign exchange impact on deferred tax balance	-	(511)
Non-deductible expenses	46	(95)
Different tax rates in other jurisdictions	(601)	319
Financing costs	-	28
Adjustment for under provision in previous year	815	751
State income taxes and other	(25)	(14)
Changes in unrecognized deferred tax assets	1,134	(1,179)
Total income tax recovery (expense)	(25)	433

For the year ended June 30, 2017, the Canadian federal corporate tax rate and the British Columbia provincial tax rate remained at 15% and 11% respectively. The US federal tax rate remained at 34%.

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

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

For the Year Ended June 30, 2017

**14. Income Taxes (continued)***Deferred Tax Assets and Liabilities*

The nature and tax effect of the temporary differences giving rise to the deferred tax assets and liabilities at June 30, 2017 and 2016 are summarized as follows:

	June 30 2015	Recognized in net income	Recognized in equity	June 30 2016
	\$	\$	\$	\$
Losses carried forward	7,626	1,157	-	8,783
Shares issue costs	88	-	-	88
Inventories and other	856	407	-	1,263
	8,570	1,564	-	10,134
Offset against deferred tax liabilities	(1,511)	(385)	-	(1,896)
Unrecognized deferred tax asset	(7,059)	(1,179)	-	(8,238)
Deferred tax assets	-	-	-	-
Property, plant and equipment	(2,374)	88	-	(2,286)
Intangibles	434	(44)	-	390
Offset against deferred tax liabilities	1,511	385	-	1,896
Deferred tax liabilities	(429)	429	-	-
Net deferred tax balance	(429)	429	-	-

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

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

For the Year Ended June 30, 2017

**14. Income Taxes (continued)**

	June 30 2016	Recognized in net income	Recognized in equity	June 30 2017
	\$	\$	\$	\$
Losses carried forward	8,783	1,479	-	10,262
Shares issue costs	88	(36)	-	52
Inventories and other	1,263	(771)	-	492
Legal expenses	-	546	-	546
	10,134	1,218	-	11,352
Offset against deferred tax liabilities	(1,896)	(84)	-	(1,980)
Unrecognized deferred tax asset	(8,238)	(1,134)	-	(9,372)
Deferred tax assets	-	-	-	-
Property, plant and equipment	(2,286)	306	-	(1,980)
Intangibles	390	(390)	-	-
Offset against deferred tax liabilities	1,896	84	-	1,980
Deferred tax liabilities	-	-	-	-
Net deferred tax balance	-	-	-	-

*Tax Losses*

As at June 30, 2017, the Company has accumulated non-capital losses of approximately C\$15,560 (June 30, 2016 - C\$14,388) for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years, which expire in various amounts from 2018 to 2037. The Company also has United States non-operating losses of approximately \$15,425 (June 30, 2016 - \$12,850) which expire up to 2036.

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

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

For the Year Ended June 30, 2017

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**15. 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.

	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	411,428	185
June 30, 2017	30,346,590	52,686

## **IBC ADVANCED ALLOYS CORP.**

### **Notes to the Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

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#### **15. Share Capital (continued)**

##### *Fiscal 2017*

In February 2017, the Company issued 48,457 of common shares for services to directors of the Company and issued 83,210 of common shares for services to an officer of the Company.

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 are subject to a hold period that expired September 25, 2016.

The Company paid finders' fees on the private placement of \$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 Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

**16. 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	-	-	(4)	(4)
Shares for services	-	48	-	48
Share-based compensation	-	153	-	153
At June 30, 2017	524	7,531	158	8,213

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

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

For the Year Ended June 30, 2017

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**17. 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 June 30, 2017 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	(415,750)	1.34
At June 30, 2017	2,071,750	0.75

During the year ended June 30, 2017, the Company recognized share-based compensation and share-based services expense of \$244 (June 30, 2016 - \$522).

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

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

For the Year Ended June 30, 2017

**17. Share-Based Payments (continued)**

At June 30, 2017, 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	3.90 years	0.37	907,000	0.37
0.77	676,000	3.99 years	0.77	338,000	0.77
1.20	97,000	3.15 years	1.20	48,500	1.20
1.40	75,250	1.48 years	1.40	75,250	1.40
1.50	316,500	1.45 years	1.50	294,125	1.50
	<u>2,071,750</u>	3.43 years	0.75	<u>1,662,875</u>	0.72

The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions to determine share-based compensation:

	2017	2016
Annualized stock price volatility	172%	169%
Risk-free interest rate	0.60%	0.59%
Expected option lives	3.2 years	5.0 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 Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

**18. 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	21,001,670	0.55	1,013,400	0.44
Expired	(875,000)	1.80	(106,400)	1.00
At June 30, 2017	20,126,670	0.50	907,000	0.38

At June 30, 2017, 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
20,126,670	907,000	0.375	May 24, 2021

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 Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

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**19. Related Party Transactions**

Key management personnel compensation was:

Year ended June 30	2017	2016
	\$	\$
Short-term employee benefits	1,276	1,117
Share-based payments	332	231
	1,608	1,348

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

As at June 30, 2017, \$122 (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 June 30, 2017, \$301 (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 year ended June 30, 2017, the Company incurred interest expense of \$34 (June 30, 2016 - \$10) on amounts due to related parties.

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

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

For the Year Ended June 30, 2017

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**20. Commitments and Contingencies**

The Company has entered into commercial property leases. These leases have an average remaining life of 3.1 years, with no renewal options. The future minimum rental payments under non-cancellable operating leases at June 30, 2017 are:

Period ending June 30	\$
2018	539
2019	539
2020	509
2021	257
	<u>1,844</u>

The Company recognized lease expense of \$564 (June 30, 2016 - \$431).

The Company is contractually committed to purchase, at June 30, 2017 prices, an aggregate of \$1,409 (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 the fiscal period is as follows:

Period ending June 30	\$
2018	<u>1,409</u>

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 had no contingent liabilities as of June 30, 2017 and 2016.

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

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

For the Year Ended June 30, 2017

**21. Segment Reporting**

As at June 30, 2017, the Company had three reportable segments: Copper Alloys, Engineered Materials and Corporate. As at June 30, 2017, 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 Research & Development but it is no longer material and is incorporated into the Corporate segment.

The accounting policies of the segments are the same as described in note 25 of these 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
	\$	\$	\$	\$
Year ended June 30, 2017				
Revenue from external customers	11,872	3,843	-	15,715
Depreciation and amortization	424	323	-	747
Share-based compensation	46	32	166	244
Interest expense	160	34	-	194
Other (income) expense	(39)	(1,405)	22	(1,422)
Loss before other items	(586)	(1,695)	(1,093)	(3,374)
Foreign exchange loss				(54)
Interest expense				(194)
Loss on disposal of assets				(294)
Interest income				1
Other expense				(1,422)
Loss before income taxes				(5,337)
Income tax expense	(20)	(5)	-	(25)
Capital expenditures	394	1,397	-	1,791

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

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

For the Year Ended June 30, 2017

**21. Segment Reporting (continued)**

	Copper Alloys	Engineered Materials	Corporate	Total
	\$	\$	\$	\$
Year ended June 30, 2016				
Revenue from external customers	11,971	4,403	-	16,374
Depreciation and amortization	524	346	13	883
Share-based compensation	15	22	485	522
Interest expense	86	92	-	178
Other income	-	-	57	57
Loss before other items	(1,529)	(1,071)	(1,661)	(4,261)
Foreign exchange gain				15
Interest expense				(178)
Interest income				4
Other income				57
Loss before income taxes				(4,363)
Income tax recovery (expense)	426	(1)	8	433
Capital expenditures	27	-	-	27

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

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

For the Year Ended June 30, 2017

**21. Segment Reporting (continued)**

Total assets employed by each division are:

	June 30 2017 \$	June 30 2016 \$
Copper Alloys	8,843	9,123
Engineered Materials	5,911	4,820
Corporate	143	3,359
	14,897	17,302

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

Total liabilities recognized by each division are:

	June 30 2017 \$	June 30 2016 \$
Copper Alloys	5,223	4,559
Engineered Materials	3,542	1,351
Corporate	459	741
	9,224	6,651

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

	June 30 2017 \$	June 30 2016 \$
United States	10,667	13,420
All others	5,048	2,954
	15,715	16,374

No revenues to any country, other than the United States, comprise more than 10% of total sales.

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

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

For the Year Ended June 30, 2017

**21. Segment Reporting (continued)**

The following customers represented more than 10% of sales:

	June 30, 2017		June 30, 2016	
	Amount	%	Amount	%
	\$		\$	
Customer A	1,838	11.7	2,650	16.2
Customer B	-	-	2,179	13.3
Customer C	2,477	15.8	-	-

  

Property, plant and equipment and intangible assets	June 30	June 30
	2017	2016
	\$	\$
United States	7,096	6,342
Canada	-	2
	7,096	6,344

**22. 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.

*Fair Values*

The Company's financial instruments classified as level 1 use quoted prices in active markets including cash. 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 year ended June 30, 2017.

*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 June 30, 2017 with other variables unchanged, a 1% increase (decrease) in the Canadian dollar would increase (decrease) net earnings by approximately \$nil (June 30, 2016 - \$3).

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

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

For the Year Ended June 30, 2017

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**22. Financial Risk Management (continued)**

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

Balances at June 30, 2017	
Cash and cash equivalents	9
Receivables	-
Accounts payable and accrued liabilities	272

  

Balances at June 30, 2016	
Cash and cash equivalents	540
Receivables	15
Accounts payable and accrued liabilities	257

*Interest Rate Risk*

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

As at June 30, 2017, with other variables unchanged, a 1% increase (decrease) in the interest rate paid on short-term deposits would increase (decrease) earnings by approximately \$nil (June 30, 2016 - \$nil).

As at June 30, 2017, 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 \$26 (June 30, 2016 - \$17).

*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 impaired receivables 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.

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

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

For the Year Ended June 30, 2017

**22. Financial Risk Management (continued)**

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

*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.

June 30, 2017	Less than three months \$	Three to 12 months \$	One to five years \$	Total \$
Trade and other payables	2,854	248	-	3,102
Line of credit	2,600	-	-	2,600
Notes payable, related party	-	300	-	300
Loan	1,080	-	-	1,080
Arbitration award liability	-	-	1,395	1,395
	<u>6,534</u>	<u>548</u>	<u>1,395</u>	<u>8,477</u>

  

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
	<u>5,584</u>	<u>781</u>	<u>-</u>	<u>6,365</u>

See notes 11 and 13 for contractual undiscounted cash flow requirements for the line of credit and loan payable as at June 30, 2017.

*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 Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

**23. Loss Per Share**

Year ended June 30	2017	2016
Loss for the period (\$000)	(5,362)	(3,930)
Weighted average number of common shares outstanding	30,184,165	11,843,155
Loss per share, basic and diluted (\$ per share)	(0.18)	(0.33)

Diluted loss per share for the periods ended June 30, 2017 and 2016 is the same as basic loss per share as the exercise of the 2,071,750 share options (June 30, 2016 – 2,487,500) and 21,033,670 warrants (June 30, 2016 – 22,015,070) would be anti-dilutive.

**24. Events after the reporting date**

On July 12, 2017, the Company announced the completion of a non-brokered Private Placement (“Private Placement”) for gross proceeds of C\$1,435.

In connection with the closing of the Private Placement, the Company issued 3,828,525 units (“Units”) at a price of C\$0.375 per Unit for gross proceeds of C\$1,435. Each Unit consists of one common share (“Common Share”) of IBC and a one-half of one transferable share purchase warrant (“Warrant”). Each full Warrant entitles the holder to acquire an additional Common Share of IBC at a price of C\$0.45 until July 12, 2019. The Warrants have an acceleration provision, to which, the Warrant holders will either need to exercise the Warrants or have them expire within 60 days if IBC’s common shares trade at C\$0.90 or greater for 21 consecutive trading days. The acceleration clause will come into effect after the one-year anniversary of the Warrant issuance. The securities issued and all securities issued upon exercise of those securities, are subject to a hold period expiring on November 12, 2017.

Certain directors and senior officers of the Company subscribed for an aggregate of 263,333 Units in the Private Placement for gross proceeds of C\$99. Each of these subscriptions constitutes a “related party transaction” within the meaning of TSX Venture Exchange Policy 5.9 - Protection of Minority Security Holders in Special Transactions and Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions. The Company conducted the private placement in reliance upon certain prospectus and registration exemptions.

Funds raised under the Private Placement will be used to provide general working capital, to support current production ramp-up and to serve as a bridge financing until IBC has achieved sustained cash-flow-positive operations. We paid finders' fees on the Private Placement in the aggregate amount of C\$25 in cash and issued 66,656 non-transferable common share purchase warrants (“Finder’s Warrant”). Each Finder’s Warrant is exercisable with the same terms as those Warrants issued to subscribers in the Private Placement.

On August 7, 2012, we received a demand from Gerald Hoolahan alleging damages related to a Stock Purchase Agreement in connection with the Company’s acquisition of Beralcast Corp., now IBC Engineered Materials Corp. On September 8, 2017, an Award was issued in favor of Claimant Gerald Hoolahan against IBC Advanced Alloys Corp. The Award, in the amount of \$1,240 plus attorney’s fees, costs, and expenses in the amount of \$155, was granted by the American Arbitration Association’s International Centre for Dispute Resolution. The Award is premised on the Arbitrator’s general finding of IBC’s certain breaches of contract related to the Stock Purchase Agreement previously mentioned. Gerald Hoolahan was a Vendor in that transaction and received shares of the Company as partial consideration for the transaction. These shares were subject to trading restrictions. The Arbitrator’s Award is fashioned based upon a calculation of prospective sales of Gerald Hoolahan’s shares before the restrictions were removed. The Arbitrator determined the restrictions to be improper. The Company vigorously disputes the allegations and is appealing the Arbitrator’s Award. The award, plus attorney’s fees, costs, and expenses were recorded as an expense and liability for the fiscal year-ended June 30, 2017. This estimated liability will be remeasured until it is resolved.

## IBC ADVANCED ALLOYS CORP.

### Notes to the Consolidated Financial Statements

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

For the Year Ended June 30, 2017

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## 25. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements unless otherwise indicated.

### a) Basis of consolidation

The consolidated financial statements comprise the financial statements of IBC and its subsidiaries at June 30, 2017. Subsidiaries consist of entities over which IBC is exposed to, or has rights to, variable returns as well as the ability to affect these returns through the power to direct the relevant activities of the entity. To the extent that subsidiaries provide services that relate to the Company's activities, they are fully consolidated from the date control is transferred to IBC and are deconsolidated from the date control ceases. These consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of IBC and its subsidiaries after eliminating inter-entity balances and transactions. Any other investments in subsidiaries would not be consolidated, but measured at fair value through profit or loss in accordance with IAS 39, but there are no non-consolidated subsidiaries.

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.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is remeasured and subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

## **IBC ADVANCED ALLOYS CORP.**

### **Notes to the Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

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#### **25. Significant Accounting Policies (continued)**

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated fully upon consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary.
- Derecognizes the carrying amount of any non-controlling interest.
- Derecognizes the cumulative translation differences recorded in equity.
- Recognizes the fair value of the consideration received.
- Recognizes the fair value of any investment retained.
- Recognizes any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

**IBC ADVANCED ALLOYS CORP.**

**Notes to the Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

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**25. Significant Accounting Policies (continued)**

b) Foreign currency transactions

Foreign currency accounts are translated into each entity's functional currency as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into the entity's functional currency by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into the functional currency by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income.

Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument and are included in profit or loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into the functional currency by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into the functional currency by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

The functional currency of IBC Advanced Alloys Corp. is the Canadian dollar. All other entities have a functional currency of the United States dollar. These financial statements are presented in United States dollars.

Entities with a functional currency other than US dollars are translated at the exchange rate in effect at the end of each period and the results of operations are translated at the average exchange rate for each period. The resulting exchange difference is charged to other comprehensive loss and applied to the cumulative foreign currency translation reserve.

## IBC ADVANCED ALLOYS CORP.

### Notes to the Consolidated Financial Statements

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

For the Year Ended June 30, 2017

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#### 25. Significant Accounting Policies (continued)

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

d) Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

*Raw materials:*

- Purchase cost on a weighted average basis.

*Finished goods and work in progress*

- Average cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

e) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking in to account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognized.

*Sale of goods*

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

*Interest income*

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability, interest income is included in finance income in the statement of loss and other comprehensive loss.

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

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

For the Year Ended June 30, 2017

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**25. Significant Accounting Policies (continued)**

## f) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in the statement of loss and other comprehensive loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of loss and other comprehensive loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of loss and other comprehensive loss when the asset is derecognized.

*Research costs*

Research costs are expensed as incurred.

*Patents and licenses*

Patents have been granted for various periods by the relevant government agency with the option of renewal at the end of the period. Licenses for the use of intellectual property are granted for periods ranging between 5 and 10 years depending on the specific license. The licenses provide the option for renewal based on whether the Company meets the condition of the license and may be renewed at little or no cost to the Company.

*Trade names*

The Company has acquired trade names through the purchase of businesses. The portion of purchase price attributable to each trade name has been capitalized and amortized over its useful life.

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

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

For the Year Ended June 30, 2017

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**25. Significant Accounting Policies (continued)**

A summary of the policies applied to the Company's intangible assets is as follows:

	Licenses	Patents	Trade Names
Useful lives	Finite	Finite	Finite
Amortization method used	Amortized on a straight-line basis over 5 to 10 years	Amortized on a straight-line basis over the period of the patent	Amortized on a straight-line basis over 5 years
Internally generated or acquired	Acquired	Acquired	Acquired

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

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

For the Year Ended June 30, 2017

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**25. Significant Accounting Policies (continued)**

## g) Property, plant and equipment

*Recognition and measurement*

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company. Such costs include appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

*Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

*Major maintenance and repairs*

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

*Gains and losses*

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized on a net basis in profit or loss.

*Depreciation*

Depreciation is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

	Years
Machinery and equipment	5-30
Vehicles	5
Leasehold improvements	over lease period
Furniture and fixtures	5-7

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

## **IBC ADVANCED ALLOYS CORP.**

### **Notes to the Consolidated Financial Statements**

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

For the Year Ended June 30, 2017

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#### **25. Significant Accounting Policies (continued)**

##### h) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the income statement in expense categories consistent with the function of the impaired asset, except for a property previously revalued, where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

##### *Intangible assets*

Intangible assets with indefinite useful lives are tested for impairment annually at June 30 either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

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

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

For the Year Ended June 30, 2017

**25. Significant Accounting Policies (continued)**

## i) Financial instruments

At June 30, 2017, the Company did not have available-for-sale or held-to maturity financial instruments.

The Company classifies its financial instruments as follows:

		June 30 2017	June 30 2016
		\$	\$
Loans and receivables, recorded at amortized cost	• Cash	100	3,473
	• Receivables	2,428	2,204
	• Deposits	-	-
Financial liabilities, recorded at amortized cost	• Lines of credit	2,600	1,682
	• Accounts payable and accrued liabilities	3,102	3,159
	• Loan and notes payable	1,380	1,524
	• Arbitration award liability	1,395	-

*Financial assets*

Financial assets are classified as into one of the following categories based on the purpose for which the asset was acquired. All financial assets are initially recognized at fair value plus transaction costs, except FVTPL, and are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

*Financial assets at Fair Value Through Profit or Loss (FVTPL)*

Financial assets are classified as FVTPL when the asset is either:

- held for trading; or
- designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resulting gain or loss recognized in profit or loss.

*Loans and receivables*

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

*Impairment on financial assets*

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

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

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

For the Year Ended June 30, 2017

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**25. Significant Accounting Policies (continued)***Financial liabilities*

The Company classifies its financial liabilities in the following categories: FVTPL and amortized cost.

The Company does not have any FVTPL liabilities.

Amortized cost liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. These financial liabilities are classified as current or non-current based on their maturity date. Amortized cost liabilities include accounts payable and accrued liabilities, lines of credit and loans.

The Company derecognizes financial liabilities when the Company's obligations are discharged, cancelled or they expire.

*Financial instruments*

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in 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).

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

## IBC ADVANCED ALLOYS CORP.

### Notes to the Consolidated Financial Statements

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

For the Year Ended June 30, 2017

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#### 25. Significant Accounting Policies (continued)

j) Provisions

*Other provisions*

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

k) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income except to the extent that they relate to a business combination or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the period-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

l) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share options and warrants are classified as equity instruments. Incremental costs directly attributable to the issue of new shares, warrants or options are shown in equity as a deduction, net of tax, from the proceeds.

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

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

For the Year Ended June 30, 2017

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**25. Significant Accounting Policies (continued)**

## m) Earnings / loss per share

Basic earnings/loss per share is computed by dividing the income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period. Diluted earnings/loss per common share is computed by dividing the income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

## n) Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss/income over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

When equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss/income over the vesting period, described as the period during which all the vesting conditions are to be satisfied. Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of loss and other comprehensive loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All equity-settled share-based payments are reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid. Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.