



IBC Advanced Alloys

IBC ADVANCED ALLOYS CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Expressed in United States Dollars

DECEMBER 31, 2018



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

The accompanying unaudited condensed consolidated interim financial statements of IBC Advanced Alloys Corp. for the six months ended December 31, 2018 have been prepared by the management of the Company and approved by the Company's audit committee.

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

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

IBC ADVANCED ALLOYS CORP.**Condensed Consolidated Interim Statements of Financial Position**

(US dollars in thousands)

| | Note | December 31 2018 \$ | June 30 2018 \$ |
|----------------------------------------------|--------|---------------------------|-----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | | 869 | 1,840 |
| Short-term deposits | | 519 | 2,687 |
| Receivables, net of provision for impairment | 6 | 1,800 | 2,815 |
| Inventories, net of provision for impairment | 7 | 7,703 | 5,886 |
| Prepaid expenses and deposits | | 895 | 229 |
| Total current assets | | 11,786 | 13,457 |
| Non-current assets | | | |
| Deposits | | 294 | 294 |
| Property, plant, and equipment | 8 | 6,535 | 6,543 |
| Other assets | | 1 | 1 |
| Total non-current assets | | 6,830 | 6,838 |
| Total assets | | 18,616 | 20,295 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Line of credit | 9 | 2,686 | 2,360 |
| Accounts payable and accrued liabilities | 10, 19 | 3,886 | 4,171 |
| Notes payable, related parties | 11, 19 | 300 | 300 |
| Unearned revenue | | 1,727 | 2,031 |
| Loan payable | 11 | 973 | 1,008 |
| Arbitration award liability | 10, 19 | 1,395 | 1,395 |
| Total current liabilities | | 10,967 | 11,265 |
| Non-current liabilities | | | |
| Lease inducement | 10 | 106 | 142 |
| Debentures | 11 | 1,592 | 1,627 |
| Total non-current liabilities | | 1,698 | 1,769 |
| Total liabilities | | 12,665 | 13,034 |
| EQUITY | | | |
| Share capital | 12 | 54,315 | 53,792 |
| Reserves | 13 | 9,417 | 9,396 |
| Accumulated deficit | | (57,781) | (55,927) |
| Total equity | | 5,951 | 7,261 |
| Total liabilities and equity | | 18,616 | 20,295 |
| Going concern operations | 2 | | |

On behalf of the board of directors:*"Simon Anderson"*

Director

Simon Anderson

"Mark Smith"

Director

Mark Smith

See accompanying notes

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

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

| | Note | Three months ended December 31 | | Six months ended December 31 | |
|-------------------------------------------------------------|-------|--------------------------------|------------|------------------------------|------------|
| | | 2018 | 2017 | 2018 | 2017 |
| | | \$ | \$ | \$ | \$ |
| Revenue | | 3,904 | 4,728 | 8,597 | 9,026 |
| Cost of revenue | 7, 8 | 3,679 | 4,220 | 7,905 | 8,122 |
| Gross profit | | 225 | 508 | 692 | 904 |
| Selling, general, and administrative expenses | | | | | |
| Consulting fees | 16 | 17 | - | 34 | - |
| Depreciation | 8 | 1 | 1 | 3 | 3 |
| Director fees, cash portion | 16 | 13 | 5 | 26 | 17 |
| Doubtful debts | | - | - | - | 77 |
| Investor relations | | 29 | 22 | 52 | 47 |
| Office and miscellaneous | | 158 | 166 | 318 | 277 |
| Professional fees | | 88 | 52 | 135 | 119 |
| Public company costs | | 71 | 26 | 96 | 39 |
| Rent | | 44 | 55 | 91 | 133 |
| Salaries, wages, and management fees | 16 | 583 | 379 | 1,020 | 808 |
| Share-based compensation and services | 14 | 62 | 52 | 219 | 133 |
| Travel, meals, and entertainment | | 74 | 51 | 103 | 87 |
| | | 1,140 | 809 | 2,097 | 1,740 |
| Loss before other items | | (915) | (301) | (1,405) | (836) |
| Other income (expense) | | | | | |
| Foreign exchange | | 33 | (36) | 37 | (46) |
| Interest expense | 9, 11 | (214) | (57) | (497) | (114) |
| Interest income | | 3 | - | 7 | 1 |
| Other income | | 5 | 1 | 7 | 3 |
| Loss before income taxes | | (1,088) | (393) | (1,851) | (992) |
| Income tax expense | | | | | |
| Current | | - | (9) | (3) | (12) |
| Loss for the period, net of tax | | (1,088) | (402) | (1,854) | (1,004) |
| Other comprehensive profit (loss), net of tax | | | | | |
| Foreign currency translation | | - | (3) | 5 | 1 |
| Total comprehensive loss, net of tax | | (1,088) | (405) | (1,849) | (1,003) |
| Basic and diluted loss per common share | 20 | (0.03) | (0.01) | (0.05) | (0.03) |
| Weighted average number of common shares outstanding | | | | | |
| | 20 | 35,675,637 | 34,175,115 | 35,280,012 | 33,925,429 |

See accompanying notes

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

| Six months ended December 31 | 2018 | 2017 |
|-------------------------------------------------------|---------|---------|
| | \$ | \$ |
| Cash flows used in operating activities | | |
| Loss for the period, net of tax | (1,854) | (1,004) |
| Adjustments for: | | |
| Share-based compensation and share-based services | 248 | 88 |
| Doubtful debts expense | - | 77 |
| Depreciation | 383 | 388 |
| Amortization of accreted interest | 207 | - |
| Debentures interest paid in shares | 133 | - |
| Interest income | (7) | (1) |
| Interest expense | 189 | 114 |
| Lease Inducement | (35) | (35) |
| Changes in non-cash working capital items: | | |
| Receivables | 1,015 | (602) |
| Inventories | (1,818) | 46 |
| Prepaid expenses and deposits | (665) | (16) |
| Accounts payable and accrued liabilities | (370) | 498 |
| Unearned revenue | (303) | (311) |
| Cash used in operations, before tax | (2,877) | (758) |
| Income taxes | - | - |
| Net cash used in operating activities | (2,877) | (758) |
| Cash flows from financing activities | | |
| Net line of credit advances | 326 | 231 |
| Interest paid | (189) | (97) |
| Loan repayments | (36) | (30) |
| Private placement proceeds | - | 1,119 |
| Share issue costs | - | (32) |
| Net cash provided by financing activities | 101 | 1,191 |
| Cash flows used in investing activities | | |
| Interest received | 7 | 1 |
| Purchase of property, plant, and equipment | (375) | (158) |
| Net cash used in investing activities | (368) | (157) |
| Foreign exchange effect on cash | 5 | 1 |
| Change in cash during the period | (3,139) | 277 |
| Cash and cash equivalents, beginning of period | 4,527 | 100 |
| Cash and cash equivalents, end of period | 1,388 | 377 |

See accompanying notes

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

| | Note | Share Capital \$ | Reserves \$ | Accumulated Deficit \$ | Equity \$ |
|------------------------------------|------|---------------------|----------------|------------------------------|--------------|
| At June 30, 2017 | | 52,686 | 8,213 | (55,226) | 5,673 |
| Foreign currency translation gain | | - | 1 | - | 1 |
| Private placement | | 1,119 | - | - | 1,119 |
| Share issue costs | | (32) | - | - | (32) |
| Shares for services | 12 | - | 91 | - | 91 |
| Share-based compensation | 14 | - | 42 | - | 42 |
| Loss for the period | | - | - | (1,004) | (1,004) |
| At December 31, 2017 | | 53,773 | 8,347 | (56,230) | 5,890 |
| At June 30, 2018 | | 53,792 | 9,396 | (55,927) | 7,261 |
| Foreign currency translation loss | | - | 5 | - | 5 |
| Shares issued for services | 12 | 222 | (153) | - | 69 |
| Debentures converted to shares | 12 | 168 | (5) | - | 163 |
| Debentures Interest paid in shares | 12 | 133 | - | - | 133 |
| Share-based compensation | 14 | - | 174 | - | 174 |
| Loss for the period | | - | - | (1,854) | (1,854) |
| At December 31, 2018 | | 54,315 | 9,417 | (57,781) | 5,951 |

See accompanying notes

IBC ADVANCED ALLOYS CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2018

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 condensed consolidated interim financial statements for six months ended December 31, 2018 have been prepared in accordance with *IAS 34 – Interim Financial Reporting* and should be read in conjunction with the Company's June 30, 2018 audited annual financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's board of directors approved the release of these condensed consolidated interim financial statements on February 27, 2019.

b) Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies set out in June 30, 2018 audited annual financial statements. The condensed consolidated interim financial statements are presented in United States dollars and all financial amounts, other than per-share amounts, are rounded to the nearest thousand dollars. The functional currency of the parent company is the Canadian dollar but the functional currency of the subsidiary companies is the United States dollar.

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

IBC ADVANCED ALLOYS CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2018

2. Basis of Presentation (continued)

c) Going concern of operations

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

As of December 31, 2018, the Company had not yet achieved consistently profitable operations, having incurred a loss of \$1,854 during the six months ended December 31, 2018 and, as of that date, the Company had accumulated losses of \$57,781 since inception was in breach of certain bank covenants as of June 30, 2018 related to its line of credit and term loan facility for which a bank waiver was not received. On July 31, 2018 the bank did renew the line of credit and term loan facility until February 28, 2019 on substantially the same terms as the previous extension but was silent on waiver of covenants. As a result, the Company's line of credit and term loan have been presented as due on demand even though the bank has made no such demand. While the Company demonstrated profitability in the third and fourth quarter of fiscal 2018, this was predominantly because of inventory valuation adjustments for raw materials recovered from scrap. The Company expects to incur additional losses in the future until additional cost savings measures, additional revenue generation and certain manufacturing equipment are in place.

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 are 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.

The Company has sufficient cash to fund its immediate needs but it is likely that the Company will have to undertake additional fundraising. The Company has been successful in raising additional funds in the past but there is no assurance it will be able to do so in the future.

Management believes the Company will be successful at securing additional funding, and, if it successfully sustains profitable operations at its production facilities, would continue as a going concern for the foreseeable future.

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

IBC ADVANCED ALLOYS CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2018

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 are required to be adopted in future periods. The following pronouncements are relevant to the condensed consolidated interim financial statements, although none of these are expected to have a material effect on financial statement presentation:

New standards effective in the current fiscal year:

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 was permitted. The Company did not 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 was permitted. The Company did not 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.

New standards, interpretations and amendments not yet effective

a) 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 condensed consolidated interim 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 Condensed Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2018

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 (note 19).

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

5. Capital Management

The Company's primary objectives, when managing its capital, are to maintain adequate levels of funding to support the manufacturing operations of the Company and to maintain corporate and administrative functions. The Company defines capital as bank loans, other 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 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. Imposed bank restrictions currently prevent the Company from transferring funds from Copper Alloys to our other segments.

There were no changes to the Company's approach to capital management during the six months ended December 31, 2018 from the year ended June 30, 2018.

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

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

For the Six Months Ended December 31, 2018

6. Receivables

| | December 31 2018 \$ | June 30 2018 \$ |
|-------------------------------|---------------------------|-----------------------|
| Trade accounts receivable | 1,815 | 2,907 |
| Provision for impairment | (15) | (95) |
| Net trade accounts receivable | 1,800 | 2,812 |
| Other receivables | - | 3 |
| | 1,800 | 2,815 |

At December 31, 2018, trade accounts receivable of \$1,652 (June 30, 2018 - \$2,241) held by Copper Alloys were pledged as collateral for bank loans (notes 9 and 11) and trade accounts receivable of \$148 (June 30, 2018 - \$574) held by EMC were pledged as collateral for notes payable (note 11). At December 31, 2018 and June 30, 2018, the Company made a full allowance for the collectability of receivables that extended beyond the agreed-upon payment terms with customers.

7. Inventories

| | December 31, 2018 | | | June 30, 2018 | | |
|-----------------|-------------------|------------------------------|-----------|---------------|------------------------------|-----------|
| | Cost \$ | Valuation Provision \$ | Net \$ | Cost \$ | Valuation Provision \$ | Net \$ |
| Raw Materials | 4,992 | (2) | 4,990 | 4,118 | (3) | 4,115 |
| Work in process | 1,879 | - | 1,879 | 1,320 | - | 1,320 |
| Finished goods | 891 | (57) | 834 | 507 | (57) | 450 |
| | 7,762 | (59) | 7,703 | 5,945 | (60) | 5,885 |

At December 31, 2018, the Company recognized a \$59 valuation provision (June 30, 2018 - \$60). At December 31, 2018, inventories of \$4,710 (June 30, 2018 - \$3,702) held by Copper Alloys were pledged as collateral for bank loans (notes 9 and 11) and inventories of \$2,993 (June 30, 2018 - \$2,183) held by EMC were pledged as collateral for notes payable (note 11).

During the three months ended December 31, 2018, cost of sales included materials of \$1,538 (December 31, 2017 - \$2,054), and labor of \$1,010 (December 31, 2017 - \$861). During the six months ended December 31, 2018, cost of sales included materials of \$3,599 (December 31, 2017 - \$3,677), and labor of \$1,911 (December 31, 2017 - \$1,705).

During the year ended June 30, 2018, beryllium bearing alloys carried in salvage (work in process) inventory were revalued. The adjustment became necessary when a new process was developed allowing recovery of the alloys previously thought to be unrecoverable. The material in question has been stored over time in drums with the belief they would be disposed of. The new process allows the material to be heated in a furnace which allows the usable alloy to separate from contaminants. As of June 30, 2018, the new process has been tested both determining the usability of the material as well as providing yield estimates for the recovery process. The adjustment to record the value of this inventory resulted in a \$979 increase in raw material inventory values and a corresponding adjustment to cost of goods sold.

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

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

For the Six Months Ended December 31, 2018

8. Property, Plant, and Equipment

| | Land | Machinery and Equipment | Vehicles | Leasehold Improve- ments | Furniture and Fixtures | Total |
|----------------------------------------------------|------|-------------------------------|----------|--------------------------------|------------------------------|--------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | | |
| At June 30, 2017 | 510 | 9,597 | 9 | 4,668 | 83 | 14,867 |
| Purchases | - | 206 | - | 11 | 12 | 229 |
| At June 30, 2018 | 510 | 9,803 | 9 | 4,679 | 95 | 15,096 |
| Purchases | - | 318 | - | 54 | 3 | 375 |
| At December 31, 2018 | 510 | 10,121 | 9 | 4,733 | 98 | 15,471 |
| Accumulated depreciation and impairment | | | | | | |
| At June 30, 2017 | 90 | 5,582 | 5 | 2,013 | 81 | 7,771 |
| Depreciation expense | - | 509 | 2 | 268 | 3 | 782 |
| At June 30, 2018 | 90 | 6,091 | 7 | 2,281 | 84 | 8,553 |
| Depreciation expense | - | 257 | 1 | 127 | (2) | 383 |
| At December 31, 2018 | 90 | 6,348 | 8 | 2,408 | 82 | 8,936 |
| Net book value | | | | | | |
| At June 30, 2017 | 420 | 4,015 | 4 | 2,655 | 2 | 7,096 |
| At June 30, 2018 | 420 | 3,712 | 2 | 2,398 | 11 | 6,543 |
| At December 31, 2018 | 420 | 3,773 | 1 | 2,325 | 16 | 6,535 |

At December 31, 2018, the Company had pledged property, plant, and equipment held by Copper Alloys with a net book value of \$3,043 (June 30, 2018 - \$3,072) as collateral for bank loans (notes 9 and 11).

Presentation of the Company's depreciation expense is as follows:

| | Three months ended December 31 | | Six months ended December 31 | |
|----------------------------------------------|-----------------------------------|------|---------------------------------|------|
| | 2018 | 2017 | 2018 | 2017 |
| | \$ | \$ | \$ | \$ |
| Cost of revenue | 185 | 202 | 380 | 385 |
| Selling, general and administrative expenses | 1 | 1 | 3 | 3 |
| Total depreciation expense | 186 | 203 | 383 | 388 |

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

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

For the Six Months Ended December 31, 2018

9. Line of Credit

| | December 31 2018 \$ | June 30 2018 \$ |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------|
| Line of credit with BMO Harris Bank (maximum \$3,000 - June 30, 2017 maximum of \$3,500) at one-month LIBOR plus 3.75% (LIBOR plus 3.75% at June 30, 2017), renewed at January 31, 2018 where the bank lowered the maximum to \$3,000 with all other terms substantially similar terms to July 31, 2018, collateralized by substantially all of Nonferrous' and Freedom's assets. | 2,686 | 2,360 |
| | <u>2,686</u> | <u>2,360</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 minimum net worth, 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, quarters ended September 30, 2017 and December 31, 2017, the Company was in breach of covenants relating to the Company's tangible net worth, ratio of liabilities to tangible net worth and debt service coverage ratio under its line of credit and term loan (note 11) facility with BMO Harris Bank. On January 31, 2018, BMO Harris Bank waived the covenant breaches and granted the Company a six month extension to its line of credit. During the quarters ended March 31, 2018, and June 30, 2018, the Company was in breach of covenants relating to the Company's tangible net worth, ratio of liabilities to tangible net worth and debt service coverage ratio under its line of credit and term loan (note 11) facility with BMO Harris Bank. On July 31, 2018, BMO Harris Bank renewed the line of credit to February 28, 2019 on substantially the same terms as the prior agreement.

10. Accounts Payable and Accrued Liabilities

| | December 31 2018 \$ | June 30 2018 \$ |
|----------------------------------------------------|---------------------------|-----------------------|
| Trade accounts payable | 2,783 | 2,606 |
| Employee wages and payroll withholdings | 191 | 190 |
| Accrued liabilities | 841 | 1,304 |
| Lease inducement - current portion | 71 | 71 |
| Accounts payable and accrued liabilities - current | <u>3,886</u> | <u>4,171</u> |
| Arbitration award liability | 1,395 | 1,395 |
| Lease inducement - long-term | 106 | 142 |

Under the terms of a facility lease entered into during the year ended June 30, 2011, the Company received a lease inducement of \$762 which is being amortized on a straight-line basis over the term of the lease. At December 31, 2018, the remaining lease inducement was \$177 (June 30, 2018 - \$213).

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

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

For the Six Months Ended December 31, 2018

11. Loan and Notes Payable, Related Parties

| | December 31 2018 \$ | June 30 2018 \$ |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------|
| Loan payable to BMO Harris Bank in monthly payments of \$10 including interest at 5.98% per year to September 30, 2019, collateralized by substantially all the assets of Nonferrous and Freedom. | 973 | 1,008 |
| Notes payable to related parties with monthly accrued interest at 10% per year, principal due February 4, 2019 and March 31, 2019; monthly accrued interest at 12% per year, principal due February 28, 2019 and March 13, 2019, secured by accounts receivable and inventory of Engineered Materials. | 300 | 300 |
| Convertible debentures with monthly accrued interest at 8.25% per year, payable semi-annually in arrears each June 30 and December 31, with principal and any remaining unpaid accrued interest due June 6, 2023, subordinate to all existing and future secured indebtedness. ¹ | 1,503 | 1,521 |
| Debentures with monthly accrued interest at 9.5% per year, payable semi-annually in arrears each June 30 and December 31, with principal and any remaining unpaid accrued interest due June 6, 2023, subordinate to all existing and future secured indebtedness. ² | 89 | 106 |
| | <u>2,865</u> | <u>2,935</u> |
| Financial statement presentation: | | |
| Debentures: | | |
| Gross proceeds from convertible and non-convertible debentures | 2,742 | 3,048 |
| Unamortized transaction costs and original issued discount (arising from warrants and conversion features) allocated proportionately to convertible and non-convertible debentures | (1,150) | (1,421) |
| Net debentures | <u>1,592</u> | <u>1,627</u> |
| Loans payable | 973 | 1,008 |
| Notes payable, related parties | 300 | 300 |
| Total loan and notes payable, related parties | <u>2,865</u> | <u>2,935</u> |

¹The convertible debentures may be redeemed on or after June 6, 2020, at the option of the Company, provided the volume weighted average trading price of the common shares on the TSX Venture Exchange equal or exceed C\$0.62 for the 30 consecutive trading days preceding the date of notice. These convertible debentures are convertible into common shares at a conversion price of C\$0.31 per common share at the option of the holder. The Company can force conversion on or after June 6, 2020, provided the volume weighted average trading price of the common shares on the TSX Venture Exchange equal or exceed C\$0.62 for the 30 consecutive trading days preceding the date of notice. Additionally, 2,300 detached warrants were issued for each multiple of C\$1 to holders of the convertible debentures.

²The debentures may be redeemed on or after June 6, 2020, at the option of the Company, provided the volume weighted average trading price of the common shares on the TSX Venture Exchange equal or exceed C\$0.62 for the 30 consecutive trading days preceding the date of notice. Additionally, 2,300 detached warrants were issued for each multiple of C\$1 to holders of the debentures.

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

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

For the Six Months Ended December 31, 2018

11. Loan and Notes Payable, Related Parties (continued)

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 minimum net worth, minimum debt coverage, and debt-to-tangible net worth ratios. During the year ended June 30, 2017, quarters ended September 30, 2017 and December 31, 2017, the Company was in breach of covenants relating to the Company's tangible net worth, ratio of liabilities to tangible net worth and debt service coverage ratio under its line of credit (note 9) and term loan facility with BMO Harris Bank. On January 31, 2018, BMO Harris Bank waived the covenant breaches. The Company and the banking facility agreed upon an interest rate increase from 4.98% to 5.98% effective January 1, 2018. During the quarters ended March 31, 2018 and June 30, 2018, the Company was in breach of covenants relating to the Company's tangible net worth, ratio of liabilities to tangible net worth and debt service coverage ratio under its line of credit (note 9) and term loan facility with BMO Harris Bank.

A summary of debentures activity to December 31, 2018 is as follows:

| | Total Debentures \$ |
|--------------------------------------|---------------------------|
| June 1, 2018 | - |
| Proceeds from issuance of debentures | 3,024 |
| Original issue discount | (971) |
| Transaction costs | (450) |
| Amortization of accreted interest | 24 |
| June 30, 2018 | 1,627 |
| Conversion of debentures | (163) |
| Amortization of accreted interest | 207 |
| Accrued interest | 120 |
| Interest paid in cash | (3) |
| Interest paid in shares issued | (133) |
| Effect of foreign exchange rate | (63) |
| December 31, 2018 | 1,592 |

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

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

For the Six Months Ended December 31, 2018

12. 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, 2017 | 30,346,590 | 52,686 |
| Private placement | 3,828,525 | 1,119 |
| Shares issue costs | - | (13) |
| June 30, 2018 | 34,175,115 | 53,792 |
| Debentures converted to shares | 687,091 | 168 |
| Debentures interest paid in shares | 665,135 | 133 |
| Shares issue for services | 829,209 | 222 |
| December 31, 2018 | 36,356,550 | 54,315 |

IBC ADVANCED ALLOYS CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2018

12. Share Capital (continued)

Fiscal 2019

In August 2018, the Company issued 556,797 common shares for services to directors of the Company, 40,529 common shares for services to a consultant, 43,710 to a non-executive employee and 188,173 common shares for options exercised by a director of the Company.

In December 2018, the Company issued 666,165 common shares to debentures holders with an issue-date value of C\$183 in satisfaction of the December 31, 2018 interest payment in lieu of cash.

Fiscal 2018

Debentures

In June 2018, the Company issued an offering of debenture units and convertible debenture units. The offering raised gross proceeds of C\$4.1 million. Pursuant to the offering, the Company issued 182 debenture units and 3,987 convertible debenture units at a price of C\$1,000. We issued 9,381,700 financing warrants exercisable at C\$0.37 until June 6, 2023.

Each debenture unit consists of one 9.5% unsecured debenture of the Company in the principal amount of \$1,000 with interest payable semi-annually in arrears on June 30 and December 31 of each year and maturing on June 6, 2023, and 2,300 common share purchase warrants expiring on June 6, 2023.

Each convertible debenture unit consists of one 8.25% unsecured convertible debenture of the Company in the principal amount of \$1,000, convertible into common shares at a conversion price of \$0.31 per common share at the option of the holder, with interest payable semi-annually in arrears on June 30 and December 31 of each year and maturing on June 6, 2023, and 2,300 warrants expiring on June 6, 2023.

Each warrant issued with the debenture units and convertible debenture units entitles the holder to purchase one common share of the Company at an exercise price of \$0.37 at any time up to June 6, 2023. The warrants and conversion features include anti-dilution adjustments to the respective exercise and conversion prices for stock splits, stock dividends and rights or bonus issues.

The agents for the offering were paid a cash commission equal to 6.75% of the gross proceeds of the offering; and issued 1,086,253 broker warrants exercisable at \$0.37 until June 6, 2023.

The offered units were issued pursuant to a final short-form prospectus dated May 28, 2018 filed with the securities regulatory authorities in British Columbia, Alberta and Ontario. The Company received final approval to list the convertible debentures, debenture shares, warrant shares and common shares underlying the convertible debentures and broker warrants on the TSX Venture Exchange.

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

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

For the Six Months Ended December 31, 2018

13. 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, 2017 | 524 | 7,531 | 158 | 8,213 |
| Foreign currency translation reserve | - | - | 1 | 1 |
| Shares to be issued for services | - | 125 | - | 125 |
| Share-based compensation | - | 83 | - | 83 |
| Warrants and conversion features issued with Debentures | 974 | - | - | 974 |
| At June 30, 2018 | 1,498 | 7,739 | 159 | 9,396 |
| Foreign currency translation reserve | - | - | 5 | 5 |
| Shares to be issued for services | - | (153) | - | (153) |
| Share-based compensation | - | 174 | - | 174 |
| Debentures converted to shares | (5) | - | - | (5) |
| At December 31, 2018 | 1,493 | 7,760 | 164 | 9,417 |

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

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

For the Six Months Ended December 31, 2018

14. 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 2018 shareholders' meeting.

Option Grants

A summary of stock option activity to December 31, 2018 is as follows:

| | Stock Options Outstanding | Weighted Average Exercise Price C\$ |
|----------------------|------------------------------|-------------------------------------------|
| At June 30, 2017 | 2,071,750 | 0.75 |
| Expired | (209,500) | 1.50 |
| At June 30, 2018 | 1,862,250 | 0.67 |
| Exercised | (188,173) | 0.38 |
| Expired | (64,250) | 1.40 |
| Forfeited | (233,500) | 0.70 |
| Granted | 1,978,250 | 0.35 |
| At December 31, 2018 | 3,354,577 | 0.48 |

During the three months ended December 31, 2018, the Company recognized share-based compensation and share-based services expense of \$62 (December 31, 2017 - \$52) and \$219 during the six months ended December 31, 2018 (December 31, 2017 - \$133).

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

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

For the Six Months Ended December 31, 2018

14. Share-Based Payments (continued)

At December 31, 2018, 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\$ |
| 0.31 | 1,100,750 | 4.56 years | 0.31 | 275,188 | 0.31 |
| 0.37 | 718,827 | 2.40 years | 0.37 | 718,827 | 0.37 |
| 0.40 | 762,500 | 3.47 years | 0.40 | 190,625 | 0.40 |
| 0.77 | 598,500 | 2.49 years | 0.77 | 448,875 | 0.77 |
| 1.20 | 84,500 | 1.965 years | 1.20 | 84,500 | 1.20 |
| 1.40 | 5,000 | 0.12 years | 1.40 | 5,000 | 1.40 |
| 1.50 | 84,500 | 1.04 years | 1.50 | 84,500 | 1.50 |
| | <u>3,354,577</u> | 3.31 years | 0.48 | <u>1,807,515</u> | 0.56 |

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

| | 2018 | 2017 |
|-----------------------------------|-----------|-----------|
| Annualized stock price volatility | 128% | 172% |
| Risk-free interest rate | 1.20% | 0.60% |
| Expected option lives | 3.2 years | 3.2 years |
| Dividend yield | 0.0% | 0.0% |

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

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

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

For the Six Months Ended December 31, 2018

15. Warrants

| | Financing Warrants | | Broker Warrants | |
|----------------------|----------------------|-------------------------------------|----------------------|-------------------------------------|
| | Warrants Outstanding | Weighted Average Exercise Price C\$ | Warrants Outstanding | Weighted Average Exercise Price C\$ |
| At June 30, 2017 | 20,126,670 | 0.50 | 907,000 | 0.38 |
| Issued | 11,295,959 | 0.38 | 1,086,253 | 0.37 |
| At June 30, 2018 | 31,422,629 | 0.46 | 1,993,253 | 0.37 |
| Exercised | - | - | (188,173) | 0.38 |
| At December 31, 2018 | 31,422,629 | 0.46 | 1,805,080 | 0.38 |

At December 31, 2018, 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 |
|------------------------------|---------------------------|--------------------|---------------|
| 1,914,259 | - | 0.450 | July 12, 2019 |
| 20,126,670 | 718,827 | 0.375 | May 24, 2021 |
| 9,381,700 | 1,086,253 | 0.370 | June 6, 2023 |

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

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

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

For the Six Months Ended December 31, 2018

16. Related Parties Transactions

Key management personnel compensation was:

| | Three months ended December 31 | | Six months ended December 31 | |
|------------------------------|-----------------------------------|------|---------------------------------|------|
| | 2018 | 2017 | 2018 | 2017 |
| | \$ | \$ | \$ | \$ |
| Short-term employee benefits | 288 | 231 | 584 | 504 |
| Share-based payments | 183 | 19 | 281 | 39 |
| | 471 | 250 | 865 | 543 |

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

As of December 31, 2018, \$146 (June 30, 2018 - \$310) is owing to directors and officers for services and \$33 (June 30, 2018 - \$11) is owing to officers for expenses paid on the Company's behalf.

As of December 31, 2018, \$300 (June 30, 2018 - \$300) is owing to a director and officer and individuals related to him for notes payable principal and interest (note 11). During the three months ended December 31, 2018, the Company incurred interest expense of \$9 (December 31, 2017 - \$9) and \$17 during the six months ended December 31, 2018 (December 31, 2017 - \$17) on amounts due to related parties.

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

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

For the Six Months Ended December 31, 2018

17. Commitments and Contingencies

The Company has entered into commercial property leases. These leases have an average remaining life of 2.2 years, with no renewal options. The future minimum rental payments under non-cancellable operating leases at December 31, 2018 are:

| Period ending June 30 | \$ |
|-----------------------|--------------|
| 2019 | 278 |
| 2020 | 573 |
| 2021 | 408 |
| | <u>1,259</u> |

The Company recognized lease expense of \$122 for the three months ended December 31, 2018 (December 31, 2017 - \$157) and \$244 for the six months ended December 31, 2018 (December 31, 2017 - \$283).

The Company is contractually committed to purchase, at December 31, 2018 prices, an aggregate of \$1,887 (June 30, 2018 - \$2,320) 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 | \$ |
|-----------------------|--------------|
| 2019 | 1,887 |
| 2020 | 1,843 |
| | <u>3,730</u> |

The Company is contractually committed to paying \$30 to a company providing consulting services if certain contractual requirements are met.

The Company had no contingent liabilities as of December 31, 2018 and June 30, 2018.

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

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

For the Six Months Ended December 31, 2018

18. Segment Reporting

As of December 31, 2018, the Company had three reportable segments: Copper Alloys, Engineered Materials and Corporate. As of December 31, 2018, the Company had two manufacturing segments: Copper Alloys and Engineered Materials. The manufacturing segments produce beryllium copper, Beralcast® and other specialty alloy products. 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 23 of the June 30, 2018 audited consolidated financial statements. IBC's management evaluates performance based on profit or loss from operations before other items ("operating income (loss)").

| | Copper Alloys | Engineered Materials | Corporate | Total |
|-------------------------------------------------------|---------------|-------------------------|-----------|---------|
| | \$ | \$ | \$ | \$ |
| Three months ended December 31, 2018 | | | | |
| Revenue from external customers | 2,727 | 1,177 | - | 3,904 |
| Depreciation | 100 | 86 | - | 186 |
| Share-based compensation and shared-based services | 11 | 7 | 102 | 120 |
| Interest expense | 75 | 9 | (178) | (94) |
| Other income | - | 5 | - | 5 |
| Operating loss | (474) | (151) | (290) | (915) |
| Foreign exchange loss | | | | 33 |
| Interest expense | | | | (214) |
| Interest income | | | | 3 |
| Other income | | | | 5 |
| Loss before income taxes | | | | (1,088) |
| Income tax expense | - | - | - | - |
| Capital expenditures | 56 | 183 | - | 239 |

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

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

For the Six Months Ended December 31, 2018

18. Segment Reporting (continued)

| | Copper Alloys | Engineered Materials | Corporate | Total |
|-------------------------------------------------------|---------------|-------------------------|-----------|---------|
| | \$ | \$ | \$ | \$ |
| Three months ended December 31, 2017 | | | | |
| Revenue from external customers | 3,393 | 1,335 | - | 4,728 |
| Depreciation | 104 | 99 | - | 203 |
| Share-based compensation and shared-based services | 6 | 4 | 19 | 29 |
| Interest expense | 48 | 9 | - | 57 |
| Other income (expense) | (1) | 2 | - | 1 |
| Operating income (loss) | 10 | (153) | (158) | (301) |
| Foreign exchange loss | | | | (36) |
| Loss on disposal of assets | | | | - |
| Interest expense | | | | (57) |
| Interest income | | | | 1 |
| Other income | | | | - |
| Loss before income taxes | | | | (393) |
| Income tax expense | (2) | (1) | (6) | (9) |
| Capital expenditures | (3) | 61 | - | 58 |
| Six months ended December 31, 2018 | | | | |
| Revenue from external customers | 6,187 | 2,410 | - | 8,597 |
| Depreciation and amortization | 197 | 186 | - | 383 |
| Share-based compensation and shared-based services | 52 | 34 | 162 | 248 |
| Interest expense | 154 | 17 | 18 | 189 |
| Other income (expense) | (6) | 11 | 2 | 7 |
| Operating loss | (414) | (446) | (545) | (1,405) |
| Foreign exchange loss | | | | 37 |
| Interest expense | | | | (497) |
| Interest income | | | | 7 |
| Other income | | | | 7 |
| Loss before income taxes | | | | (1,851) |
| Income tax expense | - | (3) | - | (3) |
| Capital expenditures | 167 | 208 | - | 375 |

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

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

For the Six Months Ended December 31, 2018

18. Segment Reporting (continued)

| | Copper Alloys | Engineered Materials | Corporate | Total |
|-------------------------------------------------------|---------------|-------------------------|-----------|-------|
| | \$ | \$ | \$ | \$ |
| Six months ended December 31, 2017 | | | | |
| Revenue from external customers | 6,242 | 2,784 | - | 9,026 |
| Depreciation and amortization | 189 | 199 | - | 388 |
| Share-based compensation and shared-based services | 12 | 8 | 68 | 88 |
| Interest expense | 97 | 17 | - | 114 |
| Other income | 1 | 2 | - | 3 |
| Operating loss | (259) | (221) | (356) | (836) |
| Foreign exchange loss | | | | (46) |
| Interest expense | | | | (114) |
| Loss on disposal of assets | | | | - |
| Interest income | | | | 1 |
| Other income | | | | 3 |
| Loss before income taxes | | | | (992) |
| Income tax expense | (2) | (4) | (6) | (12) |
| Capital expenditures | 20 | 138 | - | 158 |

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

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

For the Six Months Ended December 31, 2018

18. Segment Reporting (continued)

Total assets employed by each division are:

| | December 31 2018 \$ | June 30 2018 \$ |
|----------------------|---------------------------|-----------------------|
| Copper Alloys | 9,943 | 9,146 |
| Engineered Materials | 8,067 | 8,416 |
| Corporate | 606 | 2,733 |
| | 18,616 | 20,295 |

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

Total liabilities recognized by each division are:

| | December 31 2018 \$ | June 30 2018 \$ |
|----------------------|---------------------------|-----------------------|
| Copper Alloys | 5,991 | 6,091 |
| Engineered Materials | 4,592 | 4,538 |
| Corporate | 2,082 | 2,405 |
| | 12,665 | 13,034 |

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

| | Three months ended December 31 | | Six months ended December 31 | |
|---------------|-----------------------------------|--------------|---------------------------------|--------------|
| | 2018 \$ | 2017 \$ | 2018 \$ | 2017 \$ |
| United States | 3,302 | 2,750 | 5,608 | 5,448 |
| All others | 602 | 1,978 | 2,989 | 3,578 |
| | 3,904 | 4,728 | 8,597 | 9,026 |

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

The following customers represented more than 10% of sales:

| | December 31, 2018 | | December 31, 2017 | |
|------------|-------------------|------|-------------------|------|
| | Amount \$ | % | Amount \$ | % |
| Customer A | 1,353 | 15.7 | 1,224 | 13.6 |
| Customer B | 1,061 | 12.3 | 1,453 | 16.1 |

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

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

For the Six Months Ended December 31, 2018

18. Segment Reporting (continued)

| Property, plant and equipment | December 31 2018 | June 30 2018 |
|-------------------------------|---------------------|-----------------|
| | \$ | \$ |
| United States | 6,535 | 6,543 |

19. 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.

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 six months ended December 31, 2018 from the year ended June 30, 2018.

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 six months ended December 31, 2018.

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.

As of December 31, 2018, with other variables unchanged, a 1% increase (decrease) in the Canadian dollar would increase (decrease) net earnings by approximately \$25 (June 30, 2018 - \$24).

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

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

For the Six Months Ended December 31, 2018

19. Financial Risk Management (continued)

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

| | |
|------------------------------------------|-------|
| <hr/> | |
| Balances at December 31, 2018 | \$ |
| <hr/> | |
| Cash and cash equivalents | 678 |
| Accounts payable and accrued liabilities | 256 |
| Debentures | 3,866 |
| <hr/> | |
| <hr/> | |
| Balances at June 30, 2018 | \$ |
| <hr/> | |
| Cash and cash equivalents | 3,534 |
| Accounts payable and accrued liabilities | 374 |
| Debentures | 4,079 |
| <hr/> | |

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 of December 31, 2018, with other variables unchanged, a 1% increase (decrease) in the interest rate paid on short-term deposits would increase earnings by approximately \$nil (June 30, 2018 - \$nil).

As of December 31, 2018, with other variables unchanged, a 1% increase (decrease) in the interest paid on the BMO Harris Bank line of credit would increase (decrease) earnings by approximately \$27 (June 30, 2018 - \$24).

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.

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

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

For the Six Months Ended December 31, 2018

19. Financial Risk Management (continued)

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

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

Liquidity Risk

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

| December 31, 2018 | Less than three months \$ | Three to 12 months \$ | One to five years \$ | Total \$ |
|------------------------------------------|---------------------------------|-----------------------------|----------------------------|---------------|
| Accrued payables and accrued liabilities | 3,737 | 149 | - | 3,886 |
| Line of credit | 2,686 | - | - | 2,686 |
| Notes payable, related parties | 300 | - | - | 300 |
| Loan payable | 973 | - | - | 973 |
| Arbitration award liability | - | - | 1,395 | 1,395 |
| Convertible debentures | - | - | 1,503 | 1,503 |
| Debentures | - | - | 89 | 89 |
| | <u>7,696</u> | <u>149</u> | <u>2,987</u> | <u>10,832</u> |
| June 30, 2018 | Less than three months \$ | Three to 12 months \$ | One to five years \$ | Total \$ |
| Accrued payables and accrued liabilities | 3,874 | 297 | - | 4,171 |
| Line of credit | 2,360 | - | - | 2,360 |
| Notes payable, related parties | - | 300 | - | 300 |
| Loan payable | 1,008 | - | - | 1,008 |
| Arbitration award liability | - | - | 1,395 | 1,395 |
| Convertible debentures | - | - | 1,521 | 1,521 |
| Debentures | - | - | 106 | 106 |
| | <u>7,242</u> | <u>597</u> | <u>3,022</u> | <u>10,861</u> |

See notes 9 and 11 for contractual undiscounted cash flow requirements for the line of credit and loan payable as at December 31, 2018.

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

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

For the Six Months Ended December 31, 2018

19. Financial Risk Management (continued)*Legal Matters*

As more fully discussed below, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act ("ERISA"). We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

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 amount has been accrued and the matter is under appeal.

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, except for the debentures issued on June 6, 2018 and maturing June 6, 2023 with conversion features and/or warrants as discussed in note 11. The fair value of these debentures was determined using an estimate range of the expected market interest rate (17.5% to 20.5%) for the Company of a non-convertible debenture issued without warrants.

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

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

For the Six Months Ended December 31, 2018

20. Loss Per Share

| | Three months ended | | Six months ended | |
|------------------------------------------------------|--------------------|------------|------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Loss for the year (\$000) | (1,088) | (402) | (1,854) | (1,004) |
| Weighted average number of common shares outstanding | 35,675,637 | 34,175,115 | 35,280,012 | 33,925,429 |
| Loss per share, basic and diluted (\$ per share) | (0.03) | (0.01) | (0.05) | (0.03) |

Diluted loss per share for the periods ended December 31, 2018 and 2017 is the same as basic loss per share as the exercise of the 1,807,515 share options (December 31, 2017 – 2,071,750) and 33,227,709 warrants (December 31, 2017 – 21,033,670) would be anti-dilutive.

21. Events after the reporting date

On February 27, 2019, BMO Harris renewed the Company's line of credit until September 30, 2019 on substantially the same terms as the previous extension.

On February 7, 2019, the Superior Court of California (County of Los Angeles) granted a request by Freedom Alloys, a subsidiary of IBC Advanced Alloys, for Summary Judgment in the matter of *Godoy et al. v The Argen Corporation et al.* Plaintiffs have 60 days from receipt of the Court's mailing of the ruling to appeal the grant of Summary Judgment in favor of Freedom.

22. 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 condensed consolidated interim financial statements comprise the financial statements of IBC and its subsidiaries at December 31, 2018.

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.

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

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

For the Six Months Ended December 31, 2018

22. Significant Accounting Policies (continued)

b) Financial instruments

At December 31, 2018, the Company did not have available-for-sale or held-to maturity financial instruments.

The Company classifies its financial instruments as follows:

| | | December 31 2018 | June 30 2018 |
|------------------------------------------------------|--------------------------------------------|---------------------|-----------------|
| | | \$ | \$ |
| Loans and receivables, recorded at amortized cost | • Cash and cash equivalents | 869 | 1,840 |
| | • Receivables | 1,800 | 2,815 |
| Financial liabilities, recorded at amortized cost | • Lines of credit | 2,686 | 2,360 |
| | • Accounts payable and accrued liabilities | 3,886 | 4,171 |
| | • Loan and notes payable | 1,273 | 1,308 |
| | • Arbitration award liability | 1,395 | 1,395 |
| | • Convertible debentures | 1,503 | 1,521 |
| | • Debentures | 89 | 106 |