



IBC Advanced Alloys

IBC ADVANCED ALLOYS CORP.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Expressed in United States Dollars

December 31, 2019



**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, 2019 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.
Consolidated Interim Statements of Financial Position
(US dollars in thousands)
For the Six Months Ended December 31, 2019

	Note	December 31 2019 \$	June 30 2019 \$
ASSETS			
Current assets			
Cash		853	720
Receivables, net	6	2,775	3,219
Inventories, net	7	5,621	6,208
Prepaid expenses and deposits		378	197
Total current assets		9,627	10,344
Non-current assets			
Deposits		319	319
Property, plant, and equipment	3, 8	7,373	7,150
Other assets		1	1
Total non-current assets		7,693	7,470
Total assets		17,320	17,814
LIABILITIES			
Current liabilities			
Line of credit	9	2,850	2,846
Accounts payable and accrued liabilities	10, 20	2,970	4,526
Notes payable, related parties	11, 20	200	200
Leases payable	3	565	-
Unearned revenue		632	1,123
Loan payable	11	906	936
Arbitration award liability	10, 20	1,395	1,395
Debentures, current portion	11	534	577
Total current liabilities		10,052	11,603
Non-current liabilities			
Lease inducement	10	14	71
Leases payable	3	97	-
Debentures	11	1,865	1,776
Total non-current liabilities		1,976	1,847
Total liabilities		12,028	13,450
EQUITY			
Share capital	12	56,933	54,737
Reserves	13	9,649	9,597
Accumulated deficit		(61,290)	(59,970)
Total equity		5,292	4,364
Total liabilities and equity		17,320	17,814

Going concern operation 2
Commitment and contingencies 17
Subsequent events 21

On behalf of the board of directors:

“Simon Anderson” Director “Mark Smith” Director
Simon Anderson Mark Smith

See accompanying notes

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

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

	Note	Three months ended December 31		Six months ended December 31	
		2019	2018	2019	2018
		\$	\$	\$	\$
Revenue		5,386	3,904	10,341	8,597
Cost of revenue	7, 8	4,546	3,641	8,963	7,867
Gross profit		840	263	1,378	730
Selling, general, and administrative expenses					
Consulting fees	17	55	130	79	147
Depreciation	8	93	2	97	4
Director fees, cash portion	16	13	13	25	26
Doubtful debts		43	-	43	-
Investor relations		5	-	5	23
Office and miscellaneous		355	193	523	353
Professional fees		76	88	187	135
Public company costs		21	72	122	97
Rent		5	44	(25)	91
Salaries, wages, and management fees	16	511	499	913	936
Share-based compensation and services	15, 16	36	63	74	220
Travel, meals and entertainment		75	74	106	103
		1,286	1,177	2,149	2,134
Loss before other items		(446)	(914)	(771)	(1,404)
Other income (expense)					
Foreign exchange		(58)	33	1	37
Interest expense	9, 11, 16	(271)	(215)	(554)	(498)
Interest income		-	2	-	6
Other income		5	5	11	7
Loss before income taxes		(769)	(1,089)	(1,313)	(1,852)
Income tax recovery (expense)					
Current		(1)	-	(7)	(3)
		(1)	-	(7)	(3)
Loss for the period, net of tax		(770)	(1,088)	(1,320)	(1,854)
Other comprehensive loss, net of tax					
Foreign currency translation		-	-	-	-
Total comprehensive loss, net of tax		(770)	(1,088)	(1,320)	(1,854)
Basic and diluted loss per common share	20	(0.02)	(0.03)	(0.03)	(0.05)
Weighted average number of common shares outstanding	20	42,664,412	35,675,637	41,389,001	35,280,012

See accompanying notes

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

Six months ended December 31	2019	2018
	\$	\$
Cash flows used in operating activities		
Loss for the period, net of tax	(1,320)	(1,854)
Adjustments for:		
Share-based compensation and services	148	248
Doubtful debts	43	-
Depreciation	766	383
Interest income	-	(7)
Interest expense	554	529
Lease Inducement	(57)	(35)
Changes in non-cash working capital items:		
Receivables	444	1,015
Inventories	587	(1,818)
Prepaid expenses and deposits	(181)	(665)
Accounts payable and accrued liabilities	(1,556)	(370)
Unearned revenue	(491)	(303)
Net cash used in operating activities	(1,063)	(2,877)
Cash flows from financing activities		
Net line of credit advances	4	326
Interest paid	(566)	(189)
Loan repayments	(30)	(36)
Leases principal repayments	(33)	-
Debentures principal repayments	(69)	-
Options exercised	233	-
Warrants exercised	65	-
Private placement proceeds	1,720	-
Share issue costs	(69)	-
Net cash provided by financing activities	1,255	101
Cash flows used in investing activities		
Interest received	-	7
Purchase of property, plant, and equipment	(57)	(375)
Net cash used in investing activities	(57)	(368)
Foreign exchange effect on cash	(2)	5
Change in cash during the period	133	(3,139)
Cash, beginning of period	720	4,527
Cash, end of period	853	1,388

See accompanying notes

IBC ADVANCED ALLOYS CORP.
Consolidated Interim Statement of Changes in Equity
(US dollars in thousands)
For the Six Months Ended December 31, 2019

	Note	Share Capital \$	Reserves \$	Accumulated Deficit \$	Equity \$
At June 30, 2018		53,792	9,396	(55,927)	7,261
Foreign currency translation loss		-	5	-	5
Shares issued for services	12	222	(6)	-	216
Debentures converted to shares	12	149	(113)	-	36
Debentures converted to shares - warrants		-	(4)	-	(4)
Share-based compensation	14	-	83	-	83
Loss for the period		-	-	(766)	(766)
At December 31, 2018		54,163	9,361	(56,693)	6,831
At June 30, 2019		54,737	9,597	(59,970)	4,364
Shares issued for option exercised	12	233	(52)	-	181
Shares issued for warrants exercised	12	65	65	-	130
Return to treasury	12	(7)	-	-	(7)
Foreign currency translation loss		-	3	-	3
Private placement	12	1,720	-	-	1,720
Share issue costs	12	(69)	-	-	(69)
Shares issued for services	12	83	(83)	-	-
Debentures converted to shares	12	4	(4)	-	-
Debentures interest paid in shares	12	167	111	-	278
Share-based compensation	13	-	(13)	-	(13)
Warrants and conversion features issued with debentures	13	-	25	-	25
Loss for the period		-	-	(1,320)	(1,320)
At December 31, 2019		56,933	9,649	(61,290)	5,292

See accompanying notes

IBC ADVANCED ALLOYS CORP.

Notes to the Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2019

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 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".

IBC is the ultimate parent company of its subsidiary group. IBC's registered office is located at 595 Burrard Street, Suite 2600, Vancouver, BC V7X 0L3.

2. Basis of Presentation

a) Statement of compliance

These condensed consolidated interim financial statements of the Company for the six months ended December 31, 2019 have been prepared in accordance with *International Accounting Standard 34 - Interim Financial Reporting* ("IAS 34") using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), on a basis consistent with the significant accounting policies disclosed in note 3 of the most recent annual financial statements as at and for the year ended June 30, 2019 as filed on SEDAR at www.sedar.com. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and were approved and authorized for issue by the board of directors on February 26, 2020.

The financial statements are presented in United States dollars, which is the functional currency of the Company.

b) Basis of measurement

These consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value. The 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 consolidated interim 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 consolidated interim financial statements are disclosed in note 4.

IBC ADVANCED ALLOYS CORP.

Notes to the Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2019

2. Basis of Presentation (continued)

c) Going concern of operations

These 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, 2019, the Company had not yet achieved consistently profitable operations, having incurred a loss of \$1,321 during the six months ended December 31, 2019. The Company had accumulated losses of \$61,290 since inception and was in breach of certain bank covenants as of June 30, 2019 and December 31, 2019 related to its line of credit and term loan facility. On September 30, 2019 the Company received a waiver from the bank for breach of covenants and the bank did renew the line of credit and term loan facility until September 30, 2020 with certain modifications to the debt covenants, and otherwise substantially the same terms as the previous extension. 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. 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.

For the six months ended December 31, 2019, the Company had a loss for the period, of \$1,320 (2018 – \$1,854), has a working capital deficit of \$425 (June 30, 2019 – surplus of \$1,259), and has an accumulated deficit of \$61,290 (June 30, 2019 - \$59,970). These material uncertainties lend significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company's ability to continue as a going concern is dependent upon generating positive cash flows from operations, earning sufficient returns on its investments, and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. These consolidated interim financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

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.

IBC ADVANCED ALLOYS CORP.

Notes to the Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2019

3. New and Amended IFRS Standards that are Effective for the Current Year

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 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 16 - Leases

Effective July 1, 2019 the Company adopted IFRS 16 using the modified retrospective application method, where the 2018 comparatives are not restated and the cumulative effect of initially applying IFRS 16 has been recorded on July 1, 2019 for any differences identified. The Company has determined that the adoption of IFRS 16 resulted in no adjustments to the opening balance of accumulated deficit.

IFRS 16 introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases under IFRS 17 and requiring the recognition of a right-of use asset ("ROU asset") and a lease liability at the lease commencement for all leases, except for short-term leases (lease terms of 12 months or less) and leases of low value assets.

In applying IFRS 16 for all leases, except as noted above, the Company (i) recognizes the ROU asset and the lease liabilities in the statement of financial position, initially measured at the present value of future lease payments; (ii) recognizes the depreciation of ROU assets and interest on lease liabilities in the consolidated statement of comprehensive loss; and (iii) separates the total amount of cash paid into a principal portion presented in financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows. For short-term leases and leases of low value assets, the Company has opted to recognize a lease expense on a straight-line basis, and this expense is presented within office and miscellaneous in the consolidated statement of comprehensive loss.

The Company has made use of the following practical expedients available on transition to IFRS 16:

- Measure the ROU assets equal to the lease liability calculated for each lease:
- Apply the recognition exemptions for low value leases and leases that end within 12 months of the date of initial application, and account for them as low value and short-term leases, respectively, and
- Accounting for non-lease components as a single lease component.

In transitioning to IFRS 16, the Company analyzed its contracts to identify whether they are or contain a lease arrangement. This analysis identified a contract containing a lease that had an equivalent increase to both the Company's ROU assets and lease liabilities, which resulted in a \$931 adjustment, the incremental borrowing rate for lease liabilities initially recognized on adoption of IFRS 16 was 6%.

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

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

For the Six Months Ended December 31, 2019

3. New and Amended IFRS Standards that are Effective for the Current Year (continued)

The cumulative effect of the changes made to the consolidated statement of financial position as at July 1, 2019 for the adoption of the IFRS 16 is as follows:

	As previously reported \$	Effect of Change in accounting policy \$	As reported under new accounting policy \$
Property, plant and equipment	7,150	931	8,081
Lease liability (current)	-	(547)	(547)
Lease liability (non-current)	-	(384)	(384)
	<u>7,150</u>	<u>-</u>	<u>7,150</u>

The operating Lease obligations as at June 30, 2019 are reconciled as follows to the recognized lease liabilities as at July 1, 2019.

Operating lease obligations	June 30, 2019 \$
Operating lease obligations	981
Low value lease	-
Effect from discounting at the incremental borrowing rate as of July 1, 2019	(50)
Lease liabilities due to initial application of IFRS 16 as at July 1, 2019	<u>931</u>

Lease liabilities

The Company leases office and factory space and has one other lease which is considered a low value lease and as such is included in the statement of comprehensive loss and not the statement of the financial position. Interest expense on the lease liabilities amounted to \$36 for the three months ended December 31, 2019. The Company did not incur any variable lease payments and there were not leases with residual value guarantees or leases not yet commenced to which the Company has committed. The expense relating to the low value lease amounted to \$1.

Lease liabilities	June 30, 2019 \$	Principal payments in the period \$	December 31, 2019 \$
Lease liabilities	931	(269)	662
Less: current portion	(547)	(18)	(565)
Long-term portion	<u>384</u>	<u>(287)</u>	<u>97</u>

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

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

For the Six Months Ended December 31, 2019

3. New and Amended IFRS Standards that are Effective for the Current Year (continued)

	June 30, 2019	Lease payments paid in the period	December 31, 2019
	\$	\$	\$
Undiscounted lease payments			
Not later than 1 year	573	12	585
Later than 1 year and not later than 5 years	408	(294)	114
	981	(282)	699

New standards, interpretations and amendments not yet effective

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

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 in the June 30, 2019 audited consolidated Financial Statements (note 23).

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. The Company applies a fixed accrual for uncollectable receivables and corrects the amount quarterly based on the expected credit loss model. Factors which could affect actuals are the macro economic climate as well as customer disputes over quality and customer bad collections experience.

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 14.

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

IBC ADVANCED ALLOYS CORP.

Notes to the Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2019

4. Critical Accounting Estimates and Judgments (continued)

Income taxes (continued)

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.

Useful lives of property, plant and equipment

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 comprehensive loss in specific periods. More details including carrying values are included in note 8.

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.

The valuation of beryllium-rich metal recovered during operations (revert) is based on estimated yields and the costs of the alloy used in the production process during the period.

Debentures Issued with Conversion Features and/or Warrants

The liability portion of the debenture is initially recorded at its fair value with the residual allocated to the equity features and warrants. The fair value of the financial liability is based upon the present value of contractual cash flows. The discount rate utilized is an estimate of the expected market interest rate for the Company of a non-convertible debenture issued without conversion features or warrants.

Segmented reporting

The Company must exercise judgement in defining its business segments (note 18) 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.

Contingencies

Due to the complexity and nature of the Company's operations, various legal matters arise and are outstanding from time to time. The final outcome with respect to actions outstanding or pending as at December 31, 2019, or with respect to future claims, cannot be predicted with certainty and is an area of significant management judgement. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements the date such changes occur.

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

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

For the Six Months Ended December 31, 2019

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 six months ended December 31, 2019 from the year ended June 30, 2019.

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. Refer to note 2(c) for consideration of covenants.

6. Receivables

	December 31	June 30
	2019	2019
	\$	\$
Trade accounts receivable	2,866	3,266
Provision for impairment	(91)	(47)
Net trade accounts receivable	<u>2,775</u>	<u>3,219</u>

At December 31, 2019, trade accounts receivable of \$2,488 (June 30, 2019 - \$2,560) held by Copper Alloys were pledged as collateral for bank loans (notes 9 and 11) and trade accounts receivable of \$287 (June 30, 2019 - \$659) held by EMC were pledged as collateral for notes payable (note 11). At December 31, 2019 and June 30, 2019, the Company made a full allowance for the collectability of receivables that extended beyond the agreed-upon payment terms with customers.

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

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

For the Six Months Ended December 31, 2019

7. Inventories

	December 31, 2019			June 30, 2019		
	Cost	Valuation Provision	Net	Cost	Valuation Provision	Net
	\$	\$	\$	\$	\$	\$
Raw materials	4,301	(1)	4,300	4,173	(1)	4,172
Work in process	831	-	831	1,467	-	1,467
Finished goods	490	-	490	569	-	569
	5,622	(1)	5,621	6,209	(1)	6,208

At December 31, 2019, the Company recognized a \$1 valuation provision (June 30, 2019 - \$1). At December 31, 2019, inventories of \$3,130 (June 30, 2019 - \$3,547) held by Copper Alloys were pledged as collateral for bank loans (notes 9 and 11) and inventories of \$2,492 (June 30, 2019 - \$2,661) held by EMC were pledged as collateral for notes payable (note 11). Low valuation provision is the direct result of the company's ability to return product into the manufacturing process. Material always retains its intrinsic value as the commodity and can be re-introduced into the process flow by re-melting or sold as a commodity.

During the three months ended December 31, 2019, cost of sales included materials of \$2,353 (2018 - \$1,538), and labor of \$860 (2018 - \$1,009). Also, during the six months ended December 31, 2019, cost of sales included materials of \$4,556 (2018 - \$3,599) and labor of \$1,758 (2018 - \$1,910).

In fiscal year 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 had 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 as of June 30, 2018. During the year ended June 30, 2019, the process was further implemented and proven successful allowing beryllium bearing alloys previously thought to be unusable, to be heated in a furnace permitting usable alloy to separate from contaminants. This material is included in raw material inventory in the amount of \$1,478 as of December 31, 2019.

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

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

For the Six Months Ended December 31, 2019

8. Property, Plant, and Equipment

	Land	Right of Use Asset	Machinery and Equipment	Vehicles	Leasehold Improve- ments	Furniture and Fixtures	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
At June 30, 2018	510	-	9,803	9	4,679	95	15,096
Purchases	-	-	1,288	26	120	13	1,447
Disposals	-	-	(53)	-	-	-	(53)
At June 30, 2019	510	-	11,038	35	4,799	108	16,490
Purchases	-	-	49	-	3	5	57
Recognition of right of use asset upon initial adoption of IFRS 16 per note 3	-	931	-	-	-	-	931
At December 31, 2019	510	931	11,087	35	4,802	113	17,478
Accumulated depreciation and impairment							
At June 30, 2018	90	-	6,091	7	2,281	84	8,553
Depreciation expense	-	-	557	5	257	1	820
Disposals	-	-	(33)	-	-	-	(33)
At June 30, 2019	90	-	6,615	12	2,538	85	9,340
Depreciation expense	-	279	328	3	153	2	766
At December 31, 2019	90	279	6,943	15	2,691	87	10,105
Net book value							
At June 30, 2018	420	-	3,712	2	2,398	11	6,543
At June 30, 2019	420	-	4,423	23	2,261	23	7,150
At December 31, 2019	420	652	4,144	20	2,111	26	7,373

At December 31, 2019, the Company had pledged property, plant, and equipment held by Copper Alloys with a net book value of \$3,469 (June 30, 2019 - \$3,502) as collateral for bank loans (notes 9 and 11).

Presentation of the Company's depreciation expense is included in the following line items:

	Three months ended		Six months ended	
	December 30		December 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Cost of revenue	317	185	670	380
Selling, general and administrative expenses	93	1	96	3
Total depreciation expense	410	186	766	383

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

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

For the Six Months Ended December 31, 2019

9. Line of Credit

	December 31	June 30
	2019	2019
	\$	\$
Line of credit with BMO Harris Bank for the maximum of \$3,000 (maximum \$3,000 - June 30, 2019) at one-month LIBOR plus 4.75% (LIBOR plus 3.75% at June 30, 2019). The bank modified the line of credit resulting in certain modification in covenant and extending the maturity term to September 30, 2020. All other terms of the line of credit are substantially the same and collateralized by substantially all of Nonferrous', Freedom's, and EMC's assets.	2,850	2,846
	<u>2,850</u>	<u>2,846</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 quarters ended December 31, 2018, March 31, 2019, June 30, 2019, and December 31, 2019, 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 September 30, 2019 the Company received a waiver from the bank for breach of covenants and the bank did renew the line of credit and term loan facility until September 30, 2020 with certain modifications to the debt covenants, and otherwise substantially the same terms as the previous extension.

10. Accounts Payable and Accrued Liabilities

	December 31	June 30
	2019	2019
	\$	\$
Trade accounts payable	2,271	3,427
Employee wages and payroll withholdings	169	211
Accrued liabilities	460	817
Lease inducement - current portion	71	71
Other liabilities	-	-
Accounts payable and accrued liabilities	<u>2,970</u>	<u>4,526</u>
Arbitration award liability	1,395	1,395
Lease inducement - long-term	<u>14</u>	<u>71</u>

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 30, 2019, the remaining lease inducement was \$85 (June 30, 2019 - \$142).

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

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

For the Six Months Ended December 31, 2019

11. Loan and Notes Payable, Related Parties

	December 31 2019 \$	June 30 2019 \$
Loan payable to BMO Harris Bank in monthly payments of \$11 at the fixed rate of 6.5% per year to September 30, 2020, collateralized by substantially all the assets of Nonferrous and Freedom.	906	936
Notes payable to related parties with monthly accrued interest at 10% per year, principal due February 4, 2020 and March 27, 2020; monthly accrued interest at 12% per year, principal due February 28, 2020 and March 13, 2020, secured by accounts receivable and inventory of EMC.	200	200
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	1,884	1,816
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	98	98
Convertible debt with monthly principal and interest payments of C\$45 beginning in October 2019 and continuing through the maturity date of May 31, 2021. The effective interest rate is approximately 34%. ³	417	439
	<u>3,505</u>	<u>3,489</u>
Financial statement presentation:		
Debentures:		
Gross proceeds and accrued interest from convertible and non-convertible debentures & Lind Financing	3,385	3,555
Unamortized transaction costs and original issued discount (arising from warrants and conversion features) allocated proportionately to convertible and non-convertible debentures	(986)	(1,202)
Net debentures	<u>2,399</u>	<u>2,353</u>
Net debentures (current)	534	577
Net debentures (long-term)	1,865	1,776
Net debentures	2,399	2,353
Loans payable	906	936
Notes payable, related parties	200	200
Total debentures, loans and notes payable, related parties	<u>3,505</u>	<u>3,489</u>

¹ The 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.

² The 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.

³ The convertible debt may be converted into common shares at a conversion price of C\$0.195 per common share at the option of the holder beginning October 2019. The Company may in its sole discretion, buy-back the outstanding amount of the convertible debt at any time. However, the debt holder retains the right to convert 33% of the funded amount outstanding plus all of the outstanding accrued interest into shares. Additionally, approximately 3,654 detached warrants were issued to the same holders of the convertible debt, exercisable at C\$0.195 per common share on or before May 31, 2021. Based on the terms of the agreement with the holder of the convertible debt, the Company was required to raise minimum equity capital in the amount of C\$455 in net proceed within 90 days after the close, this requirement has been waived by the holder.

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

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

For the Six Months Ended December 31, 2019

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 quarters ended December 31, 2018, March 31, 2019, June 30, 2019 and December 31, 2019, 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 September 30, 2019 the Company received a waiver from the bank for breach of covenants and the bank did renew the line of credit and term loan facility until September 30, 2020 with certain modifications to the debt covenants, and otherwise substantially the same terms as the previous extension.

A summary of debentures activity to December 31, 2019 is as follows:

	Convertible Debentures \$	Non- Convertible \$	Lind Financing \$	Total Debentures \$
June 30, 2018	1,548	79	-	1,627
Proceeds from issuance of debentures	-	-	574	574
Original issue discount	(1)	9	(84)	(76)
Transaction costs	-	-	(59)	(59)
Conversion of debentures	(168)	-	-	(168)
Amortization of accreted interest	332	9	5	346
Accrued interest	225	10	5	239
Interest paid in cash	(3)	-	-	(3)
Interest paid in shares issued	(126)	(7)	-	(133)
Effect of foreign exchange rate	9	(2)	(2)	5
June 30, 2019	1,816	98	439	2,353
Conversion of debentures	(4)	-	-	(4)
Amortization of accreted interest	167	6	49	222
Accrued interest	143	7	28	178
Principal paid in cash	-	-	(69)	(69)
Interest paid in cash	-	-	(33)	(33)
Interest paid in shares issued	(227)	(7)	-	(234)
Effect of foreign exchange rate	(11)	(6)	3	(14)
December 31, 2019	1,884	98	417	2,399

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

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

For the Six Months Ended December 31, 2019

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 Common Shares	Common Shares \$
June 30, 2018	34,175,115	53,792
Debtures converted to shares	687,091	168
Debtures interest paid in shares	665,135	133
Shares issue for services	641,036	168
Shares issued for option exercised	188,173	71
Private placement	2,477,080	405
June 30, 2019	38,833,630	54,737
Shares for services	406,228	83
Shares issued for options exercised	818,827	233
Shares issued for warrants exercised	169,408	65
Return to treasury	(36,013)	(7)
Debtures interest paid in shares	1,610,082	167
Debtures converted to shares	16,129	4
Private placement	19,198,550	1,720
Shares issue costs	-	(69)
December 31, 2019	61,016,841	56,933

Fiscal 2020

In July 2019, the Company issued 737,059 common shares to debentures holders with an issue-date value of C\$161 in satisfaction of the June 30, 2019 interest payment in lieu of cash.

In July 2019, the Company issued 304,671 common shares for services to directors of the Company, 101,557 common shares for services to a consultant, and 185,000 common shares for options exercised by a director of the Company.

In July 2019, 16,129 shares were issued upon the conversion of C\$5,000 of the 8.25% convertible debentures to common stock.

IBC ADVANCED ALLOYS CORP.

Notes to the Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2019

12. Share Capital (continued)

In October 2019, 36,013 shares and 230,000 warrants were returned to treasury upon the cancellation of C\$100,000 8.25% convertible debentures.

On November 25, 2019, the Company announced a non-brokered private placement to issue up to 17.1 million common shares at a price of C\$0.117 per common share for gross proceeds of up to C\$2.0 million. There is no minimum offering amount. This private placement was closed on December 13, 2019 at which time a second non-brokered private placement was announced for an additional 2.1 million common shares at a price of C\$.135 per common share for gross proceeds of up to C\$284,000. The second private placement closed on December 23, 2019.

In December 2019, 17,094,010 and 2,104,540 shares were issued respectively with the closure of the 1st tranche and 2nd tranche of the non-brokered private placements closed in December 2019.

In December 2019, 873,023 common shares were issued to debentures with an issue-date value of C\$157,000 in satisfaction of the December 31, 2019 interest payment in lieu of cash.

In December 2019, 633,827 shares were issued upon the exercise of options and 169,408 shares upon the exercise of financing warrants.

Subsequently in January 2020, 161,290 shares were issued upon the conversion of C\$100,000 of the 8.25% convertible debentures to common stock.

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 665,135 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.

In April 2019, the Company completed a non-brokered private placement, issuing 2,477,080 units at a price of C\$0.22 per unit for gross proceeds of C\$545,000. Each unit comprised of one common share and one common share purchase warrant (a "warrant"), each warrant entitling the holder thereof to acquire one further common share (a "warrant share") at a price of C\$0.28 per warrant share for a period of 36 months from the date of the closing of the private placement. Certain directors of the Company subscribed for an aggregate of 682,047 units in the private placement for gross proceeds of C\$151,000.

In 2019, C\$213,000 worth of debenture (issued on June 6, 2018) were converted to 687,091 shares at C\$0.31 per share.

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

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

For the Six Months Ended December 31, 2019

13. Reserves

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

	Warrants and convertible debentures	Share-based compensation reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$
At June 30, 2018	1,498	7,739	159	9,396
Foreign currency translation gain	-	-	5	5
Shares issued for option exercise	-	(17)	-	(17)
Shares issued for services	-	(163)	-	(163)
Share-based compensation	-	304	-	304
Debentures converted to shares	(4)	-	-	(4)
Warrants and conversion features issued with debentures	76	-	-	76
At June 30, 2019	1,570	7,863	164	9,597
Foreign currency translation gain	-	-	3	3
Shares issued for option exercise	-	(52)	-	(52)
Shares issued for warrants exercise	65	-	-	65
Shares issued for services	-	(83)	-	(83)
Share-based compensation	-	(13)	-	(13)
Debentures converted to shares	(4)	-	-	(4)
Debentures interest paid in shares	-	111	-	111
Warrants and conversion features issued with debentures	25	-	-	25
December 31, 2019	1,656	7,826	167	9,649

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 grant 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 2019 shareholders' meeting.

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

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

For the Six Months Ended December 31, 2019

14. Share-Based Payments (continued)*Option Grants*

A summary of stock option activity to December 31, 2019 is as follows:

	Stock Options Outstanding	Weighted Average Exercise Price C\$
At June 30, 2018	1,862,250	0.67
Exercised	(188,173)	0.38
Expired	(69,250)	1.40
Forfeited	(253,500)	0.67
Granted	1,978,250	0.35
At June 30, 2019	3,329,577	0.48
Exercised	(818,827)	0.37
At December 31, 2019	2,510,750	0.52

During the three months ended December 31, 2019 the Company recognized share-based compensation and share-based services of \$36 (2018 - \$63), and during the six months ended December 31, 2019 the Company recognized share-based compensation and share-based services of \$74 (2018 - \$220).

At December 31, 2019, the Company had outstanding and exercisable stock options as follows:

Exercise Price C\$	Outstanding Options			Exercisable Options	
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price C\$	Number	Weighted Average Exercise Price C\$
0.31	1,030,750	3.56 years	0.31	270,188	0.31
0.38	712,500	2.47 years	0.40	190,625	0.40
0.40	598,500	1.49 years	0.77	448,875	0.77
0.77	84,500	0.65 years	1.20	84,500	1.20
1.20	84,500	0.04 years	1.50	84,500	1.50
	2,510,750	2.54 years	0.52	1,078,688	0.68

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

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

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

For the Six Months Ended December 31, 2019

14. Share-Based Payments (continued)

	2019	2018
Annualized expected stock price volatility	128%	128%
Risk-free interest rate	1.19%	1.20%
Expected option lives	2.0 years	2.3 years
Weighted average exercise price	C\$0.68	C\$0.56
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.

The expected volatility is determined by reference to the historical volatility of the Company.

15. Warrants

	Financing Warrants		Broker Warrants	
	Warrants Outstanding	Weighted Average Exercise Price C\$	Warrants Outstanding	Weighted Average Exercise Price C\$
At June 30, 2018	31,422,629	0.46	1,993,253	0.37
Issued	6,130,926	0.23	-	-
June 30, 2019	37,553,555	0.42	1,993,253	0.37
Issued	-	-	-	-
Exercised	(169,408)	0.50	-	-
Cancelled	(230,000)	0.37	-	-
Expired	(1,914,259)	0.45	-	-
December 31, 2019	35,239,888	0.42	1,993,253	0.37

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

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

For the Six Months Ended December 31, 2019

15. Warrants (continued)

At December 30, 2019, 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
2,477,080	-	0.280	April 22, 2022
3,653,846	-	0.195	May 21, 2021
19,957,262	-	0.500	May 24, 2021
-	907,000	0.375	May 24, 2021
9,151,700	1,086,253	0.370	June 6, 2023
35,239,888	1,993,253		

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.

16. Related Parties Transactions

Key management personnel compensation was:

	Three months ended December 31,		Six months ended December 31,	
	2019 \$	2018 \$	2019 \$	2018 \$
Short-term employee benefits and consulting fees	285	288	570	584
Share-based compensation and services	34	183	68	281
	319	471	638	865

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

As of December 31, 2019, \$141 (June 30, 2019 - \$109) is owing to directors and officers for services and \$19 (June 30, 2019 - \$26) is owing to officers for expenses paid on the Company's behalf.

As of December 31, 2019, \$200 (June 30, 2019 - \$200) is owing to a former director and former officer and individuals related to him for notes payable principal and interest (note 11). During the three months ended December 31, 2019, the Company incurred interest expense of \$8 (2018 - \$9) and during the six months ended December 31, 2019, the Company incurred interest expense of \$16 (2018 - \$17) on amounts due to related parties.

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

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

For the Six Months Ended December 31, 2019

17. Commitments and Contingencies

The Company has entered into commercial property leases. These leases have an average remaining life of 1.2 years, with a certain lease having a renewal option. The future minimum rental payments under non-cancellable operating leases at December 31, 2019 are:

Period ending June 30	\$
2020	291
2021	409
2022	1
	701

The Company recognized lease expense of (\$157) for the six months ended December 31, 2019 (2018 - \$122). Effective July 1, 2019 Leases are accounted for under IFRS16 and therefore, Lease expense in the six months ended is comprised of low value short term leases that are exempt from IFRS16.

The Company is contractually committed to purchase, at December 31, 2019 prices, an aggregate of \$3,993 (June 30, 2019 - \$1,843) in raw materials. The estimated commitment in the fiscal period is as follows:

Period ending June 30	\$
2020	2,194
2021	1,799
	3,993

18. Segment Reporting

As of December 31, 2019, the Company had three reportable segments: Copper Alloys, Engineered Materials and Corporate. As of December 31, 2019, 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.

The accounting policies of the segments are the same as described in note 23 of the June 30, 2019 audited consolidated financial statements. IBC's management evaluates performance based on profit or loss from operations before other items ("operating income (loss)").

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

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

For the Six Months Ended December 31, 2019

18. Segment Reporting (continued)

Three months ended December 31, 2019	Copper Alloys	Engineered Materials	Corporate	Total
	\$	\$	\$	\$
Revenue from external customers	3,564	1,822	-	5,386
Depreciation	150	260	-	410
shared-based services	4	3	30	36
Operating income (loss)	(273)	35	(208)	(446)
Foreign exchange loss	-	-	(58)	(58)
Interest expense	(92)	10	(188)	(271)
Loss on disposal of assets	-	-	-	-
Interest income	-	-	-	-
Other income	-	5	-	5
Income (loss) before income taxes	(365)	50	(453)	(769)
Income tax expense	-	-	-	-
Capital expenditures	11	4	-	15

Three months ended December 31, 2018	Copper Alloys	Engineered Materials	Corporate	Total
	\$	\$	\$	\$
Revenue from external customers	2,727	1,177	-	3,904
Depreciation	100	86	-	186
shared-based services	11	7	102	120
Operating income (loss)	(473)	(151)	(290)	(914)
Foreign exchange loss	-	-	33	33
Interest expense	(75)	(8)	(132)	(215)
Loss on disposal of assets	-	-	-	-
Interest income	-	-	2	2
Other income	-	5	-	5
Income (loss) before income taxes	(548)	(154)	(386)	(1,088)
Income tax expense	-	-	-	-
Capital expenditures	56	183	-	239

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

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

For the Six Months Ended December 31, 2019

18. Segment Reporting (continued)

Six months ended December 31, 2019	Copper Alloys	Engineered Materials	Corporate	Total
	\$	\$	\$	\$
Revenue from external customers	7,431	2,910	-	10,341
Depreciation	301	465	-	766
shared-based services	8	6	60	74
Operating income (loss)	(124)	(187)	(460)	(771)
Foreign exchange loss	-	-	-	-
Interest expense	(178)	(29)	(346)	(554)
Loss on disposal of assets	-	-	-	-
Interest income	-	-	-	-
Other income	-	11	-	11
Income (loss) before income taxes	(302)	(205)	(806)	(1,313)
Income tax expense	(2)	(3)	(1)	(6)
Capital expenditures	41	4	-	45

Six months ended December 31, 2018	Copper Alloys	Engineered Materials	Corporate	Total
	\$	\$	\$	\$
Revenue from external customers	6,187	2,410	-	8,597
Depreciation	197	186	-	383
shared-based services	52	34	162	248
Operating income (loss)	(414)	(445)	(544)	(1,404)
Foreign exchange loss	-	-	36	36
Interest expense	(154)	(17)	(327)	(498)
Loss on disposal of assets	-	-	-	-
Interest income	-	-	7	7
Other income	(6)	11	-	5
Income (loss) before income taxes	(574)	(451)	(829)	(1,854)
Income tax expense	-	(3)	-	(3)
Capital expenditures	167	208	-	375

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

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

For the Six Months Ended December 31, 2019

18. Segment Reporting (continued)

Total assets employed by each division are:

	December 31	June 30
	2019	2019
	\$	\$
Copper Alloys	9,425	9,805
Engineered Materials	7,512	7,926
Corporate	383	83
	17,320	17,814

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

Total liabilities recognized by each division are:

	December 31	June 30
	2019	2019
	\$	\$
Copper Alloys	5,461	6,419
Engineered Materials	3,534	3,974
Corporate	3,033	3,057
	12,028	13,450

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

	Three months ended		Six months ended	
	December 31		December 31	
	2019	2018	2019	2018
	\$	\$	\$	\$
United States	3,762	3,302	7,923	5,608
All others	1,624	602	2,418	2,989
	5,386	3,904	10,341	8,597

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:

Six months ended	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
	\$		\$	
Customer A	1,609	15.6	1,353	15.7
Customer B	657	6.4	1,061	12.3

	December 31	June 30
	2019	2019
	\$	\$
Property, plant and equipment		
United States	7,374	7,150

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

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

For the Six Months Ended December 31, 2019

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, 2019 from the year ended June 30, 2019.

Fair Values

The Company does not hold any financial instruments at fair value subject to level 1, 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, 2019.

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.

Below is the sensitivity analysis if holding all other variables constant, the following changes would have the following effects:

	Profit or loss		Profit or loss	
	December 31, 2019		June 30, 2019	
	Increase	(Decrease)	Increase	(Decrease)
	\$	\$	\$	\$
10% movement in cash flows	(338)	338	(319)	319
1% movement in Canadian \$ per US \$	(33)	33	(32)	32

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

Balances at December 31, 2019	\$
Cash	128
Accounts payable and accrued liabilities	165
Debentures	4,420
Balances at June 30, 2019	\$
Cash	20
Accounts payable and accrued liabilities	325
Debentures	4,323

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

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For the Six Months Ended December 31, 2019

19. Financial Risk Management (continued)*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.

Below is the sensitivity analysis if holding all other variables constant, the following changes would have the following effects:

	Profit or loss		Profit or loss	
	December 31, 2019		June 30, 2019	
	Increase	(Decrease)	Increase	(Decrease)
	\$	\$	\$	\$
10% movement in cash flows	(16)	16	(18)	18
1% movement in Libor rate	(29)	29	(28)	28

Commodity Price Risk

The Company's profitability depends, in part, on the market prices of copper, aluminium 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.

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

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

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For the Six Months Ended December 31, 2019

19. Financial Risk Management (continued)

December 31, 2019	Less than three months \$	Three to 12 months \$	One to five years \$	Total \$
Accrued payables and accrued liabilities	2,683	287	-	2,970
Line of credit	2,850	-	-	2,850
Notes payable, related parties	200	-	-	200
Leases Payable	143	442	77	662
Loan payable	906	-	-	906
Arbitration award liability	-	-	1,395	1,395
Convertible debentures	102	533	1,666	2,301
Debentures	-	13	85	98
	6,884	1,275	3,223	11,383

June 30, 2019	Less than three months \$	Three to 12 months \$	One to five years \$	Total \$
Accrued payables and accrued liabilities	4,243	283	-	4,526
Line of credit	2,846	-	-	2,846
Notes payable, related parties	200	-	-	200
Loan payable	936	-	-	936
Arbitration award liability	-	-	1,395	1,395
Convertible debentures	-	650	1,605	2,255
Debentures	-	13	85	98
	8,225	946	3,085	12,256

See notes 9 and 11 for contractual undiscounted cash flow requirements for the line of credit and loan payable as at December 31, 2019.

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 was under appeal. On March 27, 2019, the Company received notice of the Court affirming the September 8, 2017 arbitration award made in favor of Gerald R. Hoolahan. IBC has filed an appeal of the District Court’s decision. Subsequently, on January 22, 2020 United States Court of

IBC ADVANCED ALLOYS CORP.

Notes to the Consolidated Interim Financial Statements

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For the Six Months Ended December 31, 2019

19. Financial Risk Management (continued)

Legal Matters (continued)

Appeals for the First Circuit affirmed the judgment of the United States District Court for the District of Massachusetts in the case of Gerald R. Hoolahan v. IBC Advanced Alloys Corp., which found in favor of the petitioner, Mr. Hoolahan. The Company is evaluating its payment options with respect to the award granted to Mr. Hoolahan.

On January 21, 2014, a subsidiary in the Copper Alloys Division, Nonferrous Products, Inc. ("Nonferrous Products") received a "Special Notice Letter of Potential Liability" from the U.S. Environmental Protection Agency ("EPA"). The letter references the EPA's determination that a release of hazardous materials had occurred at the Chemetco Superfund Site located in Hartford, Illinois. Chemetco, Inc. operated a secondary smelting operation for recycling and after-market processing of copper-bearing scrap and manufacturing by-products. The EPA has identified Nonferrous Products as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"). Nonferrous Products has joined a defense group of other PRPs. To date, Nonferrous Products has paid immaterial amounts related to these assessments and member fees. These assessments will be used to fund further site investigation to determine the amount of materials sent to Chemetco by each party and the best clean-up method. The Company is evaluating its options regarding notifying its insurers of potentially increased liability should the EPA and/or Chemetco PRP Group contribution lawsuit attempt to name Company's subsidiary as a Defendant. Specialloy Metals Company was allocated with over 4 million pounds of material shipped to the Chemetco site, or more than ten times the amount allocated to Nonferrous. Should the EPA and/or PRP Group contribution lawsuit pursue alter ego theories and name the Company's subsidiary Company, Nonferrous Products as a defendant, then IBC potentially faces significantly more liability requiring further defensive action.

On April 7, 2015, a subsidiary in the Copper Alloys Division, Freedom Alloys, Inc. ("Freedom Alloys") was named as a defendant in a suit filed in the Superior Court of the State of California, Los Angeles County entitled Godoy et al. v The Argen Corporation et al. BC578085. This Complaint for Survival and Wrongful Death from Toxic Injuries alleges Freedom Alloys, along with five other defendants, supplied beryllium-containing materials causing fatal chronic beryllium disease to the plaintiffs' deceased father. The claim was dismissed in September 2015 but was reinstated on the plaintiffs' appeal in June 2016. A trial date was set in the matter for April 2019; however, prior to the trial date all parties filed Motions for Summary Judgment, which were heard by the Court on February 6, 2019. The Court entered its ruling on Summary Judgment on February 7, 2019, and Freedom Alloys Inc.'s motion for summary judgment was granted. Plaintiffs had until June 17, 2019 to appeal the grant of Summary Judgment in favor of Freedom. On September 12, 2019, the Court entered a final judgment in favor of Freedom Alloys and ordered plaintiffs to pay legal costs incurred by Freedom Alloys in the matter.

On March 7, 2016, Maxum Indemnity Company filed a Complaint for Declaratory Judgment against Freedom Alloys in the U.S. District Court for the Eastern District of Pennsylvania, seeking a judgment that it owes Freedom Alloys no duty to defend or indemnify Freedom Alloys for the underlying Godoy et al. v The Argen Corporation et al. lawsuit described above. The matter was stayed by agreement based on the status of Godoy et al. v The Argen Corporation et al. However, because Godoy et al. v The Argen Corporation et al. has resumed proceedings in the trial court in California, Maxum's counsel has threatened to lift the Stay of Proceedings if Freedom Alloys does not commit to giving up its claim for indemnity if it does not prevail in its defense of the matter. The Court issued a ruling granting Defendants' Summary Judgment Motion on the survival claims. At this point, the remaining claims are the wrongful death claims of decedent's heirs for which defense counsel has asked Plaintiff counsel to voluntarily dismiss Freedom Alloys from the case, emphasizing that Plaintiffs have not produced any evidence that Freedom supplied any beryllium that came into contact with the decedent.

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 and debenture issued on May 21, 2019 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 (June 6, 2018 – 17.5% to 20.5%, May 21, 2019 – 32.5% to 35.5%) for the Company of a non-convertible debenture issued without warrants.

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

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For the Six Months Ended December 31, 2019

20. Loss per Share

	Three months ended		Six months ended	
	December 31		December 31	
	2019	2018	2019	2018
Loss for the period (\$000)	(770)	(1,088)	(1,320)	(1,854)
Weighted average number of common shares outstanding	42,664,412	35,675,637	41,389,001	35,280,012
Loss per share, basic and diluted (\$ per share)	(0.02)	(0.03)	(0.03)	(0.05)

Diluted loss per share for the periods ended December 31, 2019 and 2018 is the same as basic loss per share as the exercise of the 1,078,688 share options (December 31, 2018 – 1,807,515) and 37,233,141 warrants (December 31, 2018 – 33,227,709) would be anti-dilutive.

21. Events after the reporting date

In January 2020, the Company issued 161,290 common shares for debentures that were converted.