



IBC Advanced Alloys

IBC ADVANCED ALLOYS CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Expressed in United States Dollars

Unaudited – Prepared by Management

DECEMBER 31, 2015



**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, 2015 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 2015 \$	June 30 2015 \$
ASSETS			
Current assets			
Cash	6	315	948
Receivables	7	1,924	1,808
Inventories	8	5,409	5,229
Prepaid expenses and deposits		377	261
Total current assets		8,025	8,246
Non-current assets			
Deposits		302	351
Property, plant and equipment	9	6,787	7,189
Intangible assets	10	11	11
Other assets		1	7
Total non-current assets		7,101	7,558
Total assets		15,126	15,804
LIABILITIES			
Current liabilities			
Lines of credit	11, 13	3,369	2,848
Accounts payable and accrued liabilities	12, 18	3,170	2,234
Unearned revenue		502	175
Current portion of loan payable	13	85	85
Total current liabilities		7,126	5,342
Non-current liabilities			
Loan payable	13	1,097	1,129
Lease inducement	12	320	355
Deferred income taxes		469	429
Total non-current liabilities		1,886	1,913
Total liabilities		9,012	7,255
EQUITY			
Share capital	14	47,238	47,238
Reserves	15	7,305	7,245
Accumulated deficit		(48,429)	(45,934)
Total equity		6,114	8,549
Total liabilities and equity		15,126	15,804

On behalf of the board of directors:

<u>"Dal Brynelsen"</u>	Director	<u>"Alastair Neill"</u>	Director
Dal Brynelsen		Alastair Neill	

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	
		2015	2014	2015	2014
		\$	\$	\$	\$
Revenue		3,324	5,087	7,556	9,733
Cost of revenue		4,109	4,763	8,018	9,033
Gross profit		(785)	324	(462)	700
Selling, general and administrative expenses					
Consulting fees	18	-	13	-	25
Depreciation and amortization	9, 10	4	4	8	9
Director fees	18	25	38	50	52
Doubtful debts (recovery)		-	(200)	-	(200)
Investor relations		75	74	155	146
Office and miscellaneous		108	120	208	246
Professional fees		43	43	191	94
Public company costs		4	28	20	33
Rent		41	69	104	139
Salaries, wages and management fees	18	478	553	1,012	1,169
Share-based compensation	16	27	32	64	68
Travel, meals and entertainment		89	73	149	129
		894	847	1,961	1,910
Loss before other items		(1,679)	(523)	(2,423)	(1,210)
Other income (expense)					
Foreign exchange gain		2	2	15	22
Interest expense	11, 13	(42)	(32)	(83)	(66)
Gain on disposal of assets		-	-	-	9
Interest income		-	-	-	1
Other income (loss)		14	(5)	38	23
Loss before income taxes		(1,705)	(558)	(2,453)	(1,221)
Income tax (expense) recovery					
Current		(2)	(7)	(2)	(9)
Deferred		(67)	(141)	(40)	5
		(69)	(148)	(42)	(4)
Loss for the period, net of tax		(1,774)	(706)	(2,495)	(1,225)
Other comprehensive loss, net of tax					
Foreign currency translation		14	31	(4)	(23)
Total comprehensive loss for the period, net of tax		(1,760)	(675)	(2,499)	(1,248)
Basic and diluted loss per common share		(0.02)	(0.01)	(0.03)	(0.02)
Weighted average number of common shares outstanding		98,085,813	80,183,536	98,085,813	80,183,536

See accompanying notes

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

Six months ended December 31	2015	2014
	\$	\$
Cash flows used in operating activities		
Loss for the period	(2,495)	(1,225)
Adjustments for:		
Deferred income taxes	40	217
Share-based compensation	64	68
Non-cash gain on disposal of assets	-	(9)
Doubtful debts expense (recovery)	-	(200)
Depreciation and amortization	439	430
Unrealized foreign exchange loss	(6)	(62)
Interest income	-	(1)
Interest expense	83	66
Lease expense	(35)	-
Changes in non-cash working capital items:		
Receivables	(121)	447
Income tax payable	-	(22)
Inventories	(180)	75
Prepaid expenses and deposits	(79)	(79)
Accounts payable and accrued liabilities	1,002	(798)
Unearned revenue	327	77
Income taxes paid	-	9
	(961)	(1,007)
Cash used in operations, before tax	(961)	(1,007)
Income taxes	-	-
	(961)	(1,007)
Cash flows from financing activities		
Issuance of shares	-	250
Interest paid	(83)	(57)
Loan repayments	(32)	(28)
Net line of credit advances	521	(151)
	406	14
Net cash provided by financing activities	406	14
Cash flows used in investing activities		
Interest received	-	1
Purchase of property, plant and equipment	(37)	(168)
	(37)	(167)
Net cash used in investing activities	(37)	(167)
Foreign exchange effect on cash	(41)	(49)
Change in cash during period	(633)	(1,209)
Cash, beginning of period	948	1,517
Cash, end of period	315	308

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, 2014		45,811	7,028	(43,131)	9,708
Foreign currency translation loss		-	(23)	-	(23)
Warrants exercised	14	188	-	-	188
Share-based compensation	16	-	68	-	68
Loss for the period		-	-	(1,225)	(1,225)
At December 31, 2014		45,999	7,073	(44,356)	8,716
At June 30, 2015		47,238	7,245	(45,934)	8,549
Foreign currency translation loss		-	(4)	-	(4)
Share-based compensation	16	-	64	-	64
Loss for the period		-	-	(2,495)	(2,495)
At December 31, 2015		47,238	7,305	(48,429)	6,114

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, 2015

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 Suite 818, 700 West Georgia Street, PO Box 10077, Vancouver, BC, V7Y 1B6.

2. Basis of Presentation

a) Statement of compliance

These condensed consolidated interim financial statements for the six-month period ended December 31, 2015 have been prepared in accordance with *IAS 34 – Interim Financial Reporting* and should be read in conjunction with the Company's June 30, 2015 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 audit committee approved the release of these condensed consolidated interim financial statements on February 25, 2016.

b) Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies set out in the June 30, 2015 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, 2015

2. Basis of Presentation (continued)

c) Principles of consolidation

The consolidated financial statements comprise the financial statements of IBC and its subsidiaries at December 31, 2015. 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

d) Going concern of operations

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

As at December 31, 2015, the Company had not yet achieved profitable operations, incurred a loss of \$2,495 during the six months ended December 31, 2015 and, as of that date, the Company had accumulated losses of \$48,429 since inception. Furthermore, the Company expects to incur further losses in the development of its business, all of which cast significant doubt about the Company's ability to continue as a going concern.

The Company's continuing operations and its ability to discharge its liabilities and fulfill its commitments as they come due, is dependent upon the continued sales of the Company's products, the support of its bank and related parties, the ability of the Company to continue to obtain equity and debt financing and, ultimately, reaching and maintaining profitable operations at its production facilities. Management plans to continue to develop its production facilities to ensure the Company can generate sustainable, long-term profitability, and obtain additional financing. At December 31, 2015, the Company's loan facilities with BMO Harris Bank had maturity dates of December 31, 2015, subsequently extended to January 31, 2017, and September 30, 2019.

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

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

IBC ADVANCED ALLOYS CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2015

3. Adoption of New Accounting Pronouncements and Recent Developments

Certain pronouncements, issued by the IASB or the IFRS Interpretations Committee, were adopted during the year, or were mandatory for the Company's fiscal years beginning on or after July 1, 2014 or are required to be adopted in future periods. The following pronouncements are relevant to the consolidated financial statements, although none of these are expected to have a material effect on financial statement presentation:

New standards, interpretations and amendments effective July 1, 2015

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.

New standards, interpretations and amendments not yet effective

b) IFRS 15 Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board issued IFRS 15, Revenue from Contracts with Customers, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2017 and allows early adoption. On July 22, 2015, the IASB unanimously affirmed its proposal to defer the effective date of IFRS 15 to periods beginning after January 1, 2018. Earlier application of IFRS 15 continues to be permitted. The Company does not intend to early-adopt this standard and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

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

IBC ADVANCED ALLOYS CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2015

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 the same as those applied to the Company's June 30, 2015 annual financial statements.

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

5. Capital Management

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

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

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

There were no changes to the Company's approach to capital management during the six months ended December 31, 2015 from the year ended June 30, 2015.

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, 2015

6. Cash

	December 31 2015 \$	June 30 2015 \$
Cash	315	948

Short-term deposits consist of bank deposits that can be withdrawn on demand.

7. Receivables

	December 31 2015 \$	June 30 2015 \$
Trade accounts receivable	1,920	1,797
Allowance for doubtful debts	(39)	(31)
Net trade accounts receivable	1,881	1,766
Other receivables	43	42
	1,924	1,808

At December 31, 2015, trade accounts receivable of \$1,634 (June 30, 2015 - \$1,492) held by Nonferrous, Specialloy and Freedom were pledged as collateral for bank loans (notes 11 and 13). At December 31, 2015 and June 30, 2015, the Company made a full allowance for the collectability of past-due receivables.

8. Inventories

	December 31, 2015			June 30 2015
	Cost \$	Valuation Provision \$	Net \$	\$
Raw materials	3,614	(14)	3,600	3,421
Work in process	1,382	-	1,382	1,088
Finished goods	769	(342)	427	720
	5,765	(356)	5,409	5,229

As of December 31, 2015, the Company recognized a \$356 valuation provision (June 30, 2015 - \$161). At December 31, 2015, inventories of \$4,667 (June 30, 2015 - \$4,772) held by Nonferrous, Specialloy and Freedom were pledged as collateral for bank loans (notes 11 and 13).

During the six months ended December 31, 2015, cost of sales included materials of \$3,897 (December 31, 2014 - \$5,894).

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, 2015

9. Property, Plant and Equipment

	Land	Machinery and Equipment	Vehicles	Leasehold Improve- ments	Furniture and Fixtures	Total
	\$	\$	\$	\$	\$	\$
Cost						
At June 30, 2014	510	8,629	43	4,592	159	13,933
Purchases	-	167	9	4	-	180
At June 30, 2015	510	8,796	52	4,596	159	14,113
Purchases	-	37	-	-	-	37
At December 31, 2015	510	8,833	52	4,596	159	14,150
Accumulated depreciation and impairment						
At June 30, 2014	-	4,691	43	1,190	152	6,076
Depreciation expense	-	555	1	285	7	848
At June 30, 2015	-	5,246	44	1,475	159	6,924
Depreciation expense	-	296	1	142	-	439
At December 31, 2015	-	5,542	45	1,617	159	7,363
Net book value						
At June 30, 2014	510	3,938	-	3,402	7	7,857
At June 30, 2015	510	3,550	8	3,121	-	7,189
At December 31, 2015	510	3,291	7	2,979	-	6,787

At December 31, 2015, the Company had pledged plant and equipment held by Nonferrous, Specialloy and Freedom with a net book value of \$3,603 (June 30, 2015 - \$3,887) as collateral for bank loans (notes 11 and 13).

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

Six months ended December 31	2015	2014
	\$	\$
Cost of revenue	431	421
Selling general and administrative expenses	8	9
Total depreciation and amortization expense	439	430

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, 2015

10. Intangible Assets

	Trade Names	Customer Relationships	Technology	Total
	\$	\$	\$	\$
Cost				
At June 30, 2014, June 30, 2015 and December 31, 2015	1,178	1,657	471	3,306
Accumulated amortization and impairment				
At June 30, 2014, June 30, 2015 and December 31, 2015	1,167	1,657	471	3,295
Net book value				
At June 30, 2014	11	-	-	11
At June 30, 2015	11	-	-	11
At December 31, 2015	11	-	-	11

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, 2015

11. Line of Credit

	December 31 2015 \$	June 30 2015 \$
Line of credit with BMO Harris Bank (maximum \$3,500 – June 30, 2015 maximum of \$3,500) at one-month LIBOR plus 3.75% (LIBOR plus 3.75% at June 30, 2015), with a minimum rate of 5.00% to December 31, 2015, collateralized by substantially all of Nonferrous' and Freedom's assets.	3,369	2,848
	<u>3,369</u>	<u>2,848</u>

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

The Company's bank loan and line of credit agreements with BMO Harris Bank require that the Company maintain a minimum net worth and minimum debt coverage and debt-to-tangible net worth ratios. In addition, there are limitations on dividends and capital withdrawals. During the period ended December 31, 2015, the Company adhered to stipulated covenants associated with the bank loan and line of credit.

Subsequent to period end, the Company renewed the line of credit on substantially similar terms, although with interest based on LIBOR plus 3.5%, until January 31, 2017.

12. Accounts Payable and Accrued Liabilities

	December 31 2015 \$	June 30 2015 \$
Trade accounts payable	1,186	626
Employee payroll withholdings	58	95
Accrued liabilities	1,226	1,167
Lease inducement – current portion	80	70
Other liabilities	620	276
Accounts payable and accrued liabilities - current	<u>3,170</u>	<u>2,234</u>
Lease inducement – long-term	320	355

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, 2015, the remaining lease inducement was \$400 (June 30, 2015 - \$425).

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, 2015

13. Loan Payable

	December 31	June 30
	2015	2015
	\$	\$
Loan payable to BMO Harris Bank in monthly principal payments of \$7 plus monthly accrued interest at 6.15% per year to September 30, 2019, collateralized by substantially all the assets of Nonferrous, Specialloy and Freedom.	1,182	1,214
	<u>1,182</u>	<u>1,214</u>
Financial statement presentation:		
Current portion of loans payable	85	85
Long-term loans payable	1,097	1,129
	<u>1,182</u>	<u>1,214</u>

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

The Company's bank loan and line of credit agreements with BMO Harris Bank require that the Company maintain a minimum net worth and minimum debt coverage and debt-to-tangible net worth ratios. In addition, there are limitations on dividends and capital withdrawals. During the period ended December 31, 2015, the Company adhered to stipulated covenants associated with the bank loan and line of credit.

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, 2015

14. Share Capital*Authorized capital*

Unlimited number of common shares without par value.

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

Issued capital

No preferred shares.

	Note	Number of Shares	Common Shares \$
June 30, 2014		79,450,362	45,811
Exercise of warrants	17	1,135,451	187
Private placement		17,500,000	1,416
Fair value of broker warrants issued		-	(73)
Share issue costs		-	(103)
June 30, 2015 and December 31, 2015		98,085,813	47,238

Fiscal 2015

In the year ended June 30, 2015, share purchase warrant holders exercised 1,135,451 warrants at C\$0.18 for proceeds of C\$204 (\$187).

In June 2015, the Company closed a non-brokered private placement issuing 17,500,000 units at a price of C\$0.10 per unit for gross proceeds of C\$1,750 (\$1,416). Each unit consisted of one common share and one-half of a common share purchase warrant, with each warrant having an exercise price of C\$0.18 and a term of two years. The Company closed the first tranche of the private placement, issuing 16,000,000 common shares for gross proceeds of C\$1,600 (\$1,294). The Company closed the second tranche of the private placement, issuing 1,500,000 units for gross proceeds of C\$150 (\$122). In connection with the private placement, the Company issued 1,064,000 finder's warrants and paid finder's fees of \$103. Each finder's warrant entitles the holder to purchase one common share of the Company at a price of C\$0.10 for a term of two years.

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, 2015

15. Reserves

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

	Warrants	Share-based compensation reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$
June 30, 2014	227	6,650	151	7,028
Foreign currency translation reserve	-	-	(14)	(14)
Fair value of broker warrants issued	73	-	-	73
Share-based compensation	-	158	-	158
June 30, 2015	300	6,808	137	7,245
Foreign currency translation reserve	-	-	(4)	(4)
Share-based compensation	-	64	-	64
December 31, 2015	300	6,872	133	7,305

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, 2015

16. Share-Based Payments

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

The Company's shareholders re-approved the stock option plan at the December 2015 shareholders' meeting.

Option Grants

A summary of stock option activity to December 31, 2015 is as follows:

	Stock Options Outstanding	Weighted Average Exercise Price C\$
June 30, 2014	5,920,000	0.17
Expired	(75,001)	0.99
Granted	1,970,000	0.15
June 30, 2015	7,814,999	0.16
Forfeited	(565,000)	0.19
Granted	1,200,000	0.12
December 31, 2015	8,449,999	0.15

During the six months ended December 31, 2015, the Company recognized share-based compensation of \$64 (December 31, 2014 - \$68).

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, 2015

16. Share-Based Payments (continued)

At December 31, 2015, 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\$
0.12	1,200,000	4.65 years	0.12	300,000	0.12
0.14	1,885,000	2.55 years	0.14	1,501,250	0.14
0.15	5,305,000	2.97 years	0.15	3,175,000	0.15
1.08	26,666	0.22 years	1.08	26,666	1.08
1.56	33,333	0.40 years	1.56	33,333	1.56
	8,449,999	3.08 years	0.15	5,036,249	0.16

The weighted average grant-date fair value of options awarded in the six months ended December 31, 2015 was C\$0.05. The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions to determine share-based compensation:

	2015	2014
Annualized share price volatility	105%	128%
Risk-free interest rate	0.88%	1.15%
Expected option lives	2.8 years	2.7 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, 2015

17. Warrants

	Financing Warrants		Broker Warrants	
	Warrants Outstanding	Weighted Average Exercise Price C\$	Warrants Outstanding	Weighted Average Exercise Price C\$
At June 30, 2014	23,164,997	0.20	1,997,281	0.21
Issued	8,750,000	0.18	1,064,000	0.10
Exercised	(498,000)	0.18	(637,451)	0.18
Expired	-	-	(332,541)	0.15
At June 30, 2015 and December 31, 2015	31,416,997	0.19	2,091,289	0.17

At December 31, 2015, 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
15,166,997	-	0.18	February 28, 2016
7,500,000	1,027,289	0.24	March 13, 2016
8,000,000	-	0.18	June 10, 2017
-	1,053,500	0.10	June 10, 2017
750,000	-	0.18	June 18, 2017
-	10,500	0.10	June 18, 2017
31,416,997	2,091,289		

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, 2015

18. Related Party Transactions

Key management personnel compensation was:

	Three months ended December 31		Six months ended December 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
Short-term employee benefits	218	244	443	573
Share-based payments	19	18	46	36
	237	262	489	609

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

As at December 31, 2015, \$448 (June 30, 2015 - \$416) is owing to directors and officers for services and \$5 (June 30, 2015 - \$5) is owing to officers for expenses paid on the Company's behalf. There are no terms or conditions related to any outstanding debt to related parties and the debt is unsecured.

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, 2015

19. Commitments and Contingencies

The Company has entered into commercial property leases. These leases have an average life of 3.9 years, with no renewal options. The future minimum rental payments under non-cancellable operating leases at December 31, 2015 are:

Period ending June 30	\$
2016	311
2017	527
2018	441
2019	441
2020	441
Subsequent	257
	<u>2,418</u>

The Company has entered into sublease agreements to partially defray some of these costs.

The Company is contractually committed to purchase, at December 31, 2015 prices, an aggregate of \$4,143 (June 30, 2015 - \$7,403) in raw materials. The contract periods do not coincide with the Company's fiscal year, but the estimated commitment in each fiscal period is as follows:

Period ending June 30	\$
2016	2,072
2017	<u>2,071</u>
	<u>4,143</u>

The Company is contractually committed to paying \$30 to a company providing consulting services if certain contractual requirements are met. The Company has agreed to settle this commitment through the issuance of 33,334 common shares, which has been approved by the TSX-V but the common shares have not been issued at the date of these financial statements.

The Company had no contingent liabilities at December 31, 2015 or June 30, 2015.

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, 2015

20. Segment Reporting

As at December 31, 2015, the Company had three reportable segments: copper alloys, engineered materials and corporate. The manufacturing segment produces beryllium copper, Beralcast[®] and other specialty alloy products; and corporate oversees and administers the operating divisions. In prior periods, the Company also had R&D and mineral properties segments but these are no longer material and are incorporated into the corporate segment.

The accounting policies of the segments are the same as described in note 3 of the June 30, 2015 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, 2015				
Revenue from external customers	2,524	800	-	3,324
Depreciation and amortization	110	87	-	197
Share-based compensation	4	3	20	27
Interest expense	42	-	-	42
Other income	-	-	-	-
Operating loss	(770)	(654)	(255)	(1,679)
Foreign exchange gain				2
Interest expense				(42)
Other income				14
Loss before income taxes				(1,705)
Income tax recovery	(69)	-	-	(69)
Capital expenditures	7	15	-	22

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, 2015

20. Segment Reporting (continued)

	Copper Alloys	Engineered Materials	Corporate	Total
	\$	\$	\$	\$
Three months ended December 31, 2014				
Revenue from external customers	4,415	672	-	5,087
Depreciation and amortization	99	89	1	189
Share-based compensation	5	5	22	32
Interest expense	32	-	-	32
Other income	-	-	-	-
Operating income (loss)	444	(599)	(368)	(523)
Foreign exchange loss (gain)				2
Loss on disposal of assets				-
Interest expense				(32)
Interest income				-
Other income				(5)
Loss before income taxes				(558)
Income tax recovery (expense)	100	(248)	-	(148)
Capital expenditures	54	-	-	54
Six months ended December 31, 2015				
Revenue from external customers	5,726	1,830	-	7,556
Depreciation and amortization	264	174	1	439
Share-based compensation	9	13	42	64
Interest expense	83	-	-	83
Other income	-	-	38	38
Operating loss	(947)	(867)	(609)	(2,423)
Foreign exchange gain				15
Interest expense				(83)
Other income				38
Loss before income taxes				(2,453)
Income tax recovery	(2)	(115)	75	(42)
Capital expenditures	22	15	-	37

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

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

For the Six Months Ended December 31, 2015

20. Segment Reporting (continued)

	Copper Alloys	Engineered Materials	Corporate	Total
	\$	\$	\$	\$
Six months ended December 31, 2014				
Revenue from external customers	8,399	1,334	-	9,733
Depreciation and amortization	253	175	2	430
Share-based compensation	11	11	46	68
Interest expense	66	-	-	66
Other income	-	-	23	23
Operating income (loss)	737	(1,264)	(683)	(1,210)
Foreign exchange loss (gain)				22
Loss on disposal of assets				9
Interest expense				(66)
Interest income				1
Other income				23
Loss before income taxes				(1,221)
Income tax recovery (expense)	(9)	5	-	(4)
Capital expenditures	147	20	-	167

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, 2015

20. Segment Reporting (continued)

Total assets employed by each division are:

	December 31 2015 \$	June 30 2015 \$
Copper alloys	9,144	9,245
Engineered materials	5,225	5,103
Corporate	757	1,456
	15,126	15,804

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

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

	Three months ended December 31		Six months ended December 31	
	2015 \$	2014 \$	2015 \$	2014 \$
North America	3,247	4,525	7,183	8,482
Europe	49	162	166	337
Asia	28	400	207	914
	3,324	5,087	7,556	9,733

The following customers represented more than 10% of sales:

	December 31, 2015		December 31, 2014	
	Amount \$	%	Amount \$	%
Customer A	1,394	18.8	-	-

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, 2015

21. Financial Risk Management

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

Capital Management

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

Fair Values

The Company's financial instruments classified as level 1 use quoted prices in active markets including cash and cash equivalents and interest rate swaps. The Company does not hold any financial instruments subject to level 2 or 3 fair value measurements. There were no changes in level 1, 2, or 3 financial instruments during the six months ended December 31, 2015.

Foreign Exchange Risk

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

As at December 31, 2015 with other variables unchanged, a 1% increase (decrease) in the Canadian dollar would increase (decrease) net earnings by approximately \$6 (December 31, 2014 - \$2).

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

<hr/>	
Balance at December 31, 2015	
<hr/>	
Cash and cash equivalents	225
Receivables	41
Accounts payable and accrued liabilities	211
<hr/>	
<hr/>	
Balance at June 30, 2015	
<hr/>	
Cash and cash equivalents	450
Receivables	42
Accounts payable and accrued liabilities	51
<hr/>	

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, 2015

21. Financial Risk Management (continued)

Interest Rate Risk

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

As at December 31, 2015, with other variables unchanged, a 1% increase (decrease) in the interest rate paid on short-term deposits would increase (decrease) earnings by approximately \$nil (June 30, 2015 - \$nil).

As at December 31, 2015, with other variables unchanged, a 1% increase (decrease) in the interest paid on the BMO Harris Bank line of credit would decrease (increase) earnings by approximately \$16 (June 30, 2015 - \$25).

Commodity Price Risk

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

Credit Risk

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

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

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

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

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

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

For the Six Months Ended December 31, 2015

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

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

December 31, 2015	Less than three months \$	Three to 12 months \$	One to five years \$	Total \$
Trade and other payables	3,152	18	-	3,170
Line of credit	3,369	-	-	3,369
Loan	21	64	1,097	1,182
	<u>6,542</u>	<u>82</u>	<u>1,097</u>	<u>7,721</u>
June 30, 2015	Less than three months \$	Three to 12 months \$	One to five years \$	Total \$
Trade and other payables	2,207	27	-	2,234
Line of credit	2,848	-	-	2,848
Loan	21	64	1,129	1,214
	<u>5,076</u>	<u>91</u>	<u>1,129</u>	<u>6,296</u>

See notes 11 and 13 for contractual undiscounted cash flow requirements for the line of credit and loan payable as at December 31, 2015.

Fair Value

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

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

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

For the Six Months Ended December 31, 2015

22. Loss Per Share

	Three months ended December 31		Six months ended December 31	
	2015	2014	2015	2014
Loss for the period (\$000)	(1,774)	(706)	(2,495)	(1,225)
Weighted average number of common shares outstanding	98,085,813	80,183,536	98,085,813	80,183,536
Loss per share, basic and diluted (\$ per share)	(0.02)	(0.01)	(0.03)	(0.02)

Diluted loss per share for the periods ended December 31, 2015 and 2014 is the same as basic loss per share as the exercise of the 8,449,999 share options (December 31, 2014 – 5,903,333) and 33,508,286 warrants (December 31, 2014 – 24,026,827) would be anti-dilutive.