



IBC Advanced Alloys

IBC ADVANCED ALLOYS CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Expressed in United States Dollars

DECEMBER 31, 2017



**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, 2017 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 2017 \$	June 30 2017 \$
ASSETS			
Current assets			
Cash		377	100
Receivables, net of provision for impairment	6	2,953	2,428
Inventories, net of provision for impairment	7	4,784	4,830
Prepaid expenses and deposits		164	148
Total current assets		8,278	7,506
Non-current assets			
Deposits		294	294
Property, plant, and equipment	8	6,867	7,096
Other assets		1	1
Total non-current assets		7,162	7,391
Total assets		15,440	14,897
LIABILITIES			
Current liabilities			
Line of credit	10	2,832	2,600
Accounts payable and accrued liabilities	11, 17	3,574	3,102
Notes payable, related parties	12, 17	300	300
Unearned revenue		222	534
Loan payable	12	1,050	1,080
Arbitration award liability	11, 20	1,395	1,395
Total current liabilities		9,373	9,011
Non-current liabilities			
Lease inducement	11	177	213
Total liabilities		9,550	9,224
EQUITY			
Share capital	13	53,773	52,686
Reserves	14	8,347	8,213
Accumulated deficit		(56,230)	(55,226)
Total equity		5,890	5,673
Total liabilities and equity		15,440	14,897

On behalf of the board of directors:

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

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

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

	Note	Three months ended December 31		Six months ended December 31	
		2017	2016	2017	2016
		\$	\$	\$	\$
Revenue		4,728	3,571	9,026	6,834
Cost of revenue	7, 8	4,220	3,290	8,122	7,032
Gross profit		508	281	904	(198)
Selling, general, and administrative expenses					
Depreciation and amortization	8, 9	1	3	3	5
Director fees, cash portion	17	5	4	17	8
Doubtful debts		-	19	77	19
Investor relations		22	70	47	142
Office and miscellaneous		166	98	277	202
Professional fees		52	97	119	180
Public company costs		26	50	39	75
Rent		55	20	133	61
Salaries, wages, and management fees	17	379	555	808	1,198
Share-based compensation and services	15	52	115	133	219
Travel, meals, and entertainment		51	50	87	90
		809	1,081	1,740	2,199
Loss before other items		(301)	(800)	(836)	(2,397)
Other income (expense)					
Foreign exchange gain (loss)		(36)	-	(46)	12
Interest expense	10, 12	(57)	(47)	(114)	(89)
Loss on disposal of assets		-	(2)	-	(2)
Interest income		-	1	1	1
Other income		1	10	3	30
Loss before income taxes		(393)	(838)	(992)	(2,445)
Income tax expense					
Current		(9)	-	(12)	-
Loss for the period, net of tax		(402)	(838)	(1,004)	(2,445)
Other comprehensive loss, net of tax					
Foreign currency translation		(3)	(5)	1	(85)
Total comprehensive loss, net of tax		(405)	(843)	(1,003)	(2,530)
Basic and diluted loss per common share	21	(0.01)	(0.03)	(0.03)	(0.08)
Weighted average number of common shares outstanding	21	34,175,115	30,157,934	33,925,429	30,070,901

See accompanying notes

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

Six months ended December 31	2017	2016
	\$	\$
Cash flows used in operating activities		
Loss for the period, net of tax	(1,004)	(2,445)
Adjustments for:		
Share-based compensation and share-based services	88	173
Non-cash loss on disposal of assets	-	2
Doubtful debts expense	77	19
Depreciation and amortization	388	463
Interest income	(1)	(1)
Interest expense	114	89
Lease Inducement	(35)	(35)
Changes in non-cash working capital items:		
Receivables	(602)	367
Inventories	46	(875)
Prepaid expenses and deposits	(16)	(336)
Accounts payable and accrued liabilities	498	(325)
Unearned revenue	(311)	(1)
Cash used in operations, before tax	(758)	(2,905)
Income taxes	-	-
Net cash used in operating activities	(758)	(2,905)
Cash flows from financing activities		
Net line of credit advances	231	895
Interest paid	(97)	(90)
Notes payable, related parties repayments	-	(75)
Loan repayments	(30)	(34)
Private placement	1,119	-
Share issued costs	(32)	2
Net cash provided by financing activities	1,191	698
Cash flows used in investing activities		
Interest received	1	1
Purchase of property, plant, and equipment	(158)	(84)
Net cash used in investing activities	(157)	(83)
Foreign exchange effect on cash	1	(85)
Change in cash during the period	277	(2,375)
Cash, beginning of period	100	3,473
Cash, end of period	377	1,098

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, 2016		52,499	8,016	(49,864)	10,651
Foreign currency translation gain		-	(85)	-	(85)
Subscription received		2	-	-	2
Shares for services	13	135	-	-	135
Share-based compensation	15	-	129	-	129
Loss for the period		-	-	(2,445)	(2,445)
At December 31, 2016		52,636	8,060	(52,309)	8,387
At June 30, 2017		52,686	8,213	(55,226)	5,673
Foreign currency translation loss		-	1	-	1
Private placement		1,119	-	-	1,119
Share issue costs		(32)	-	-	(32)
Shares for services	13	-	91	-	91
Share-based compensation	15	-	42	-	42
Loss for the period		-	-	(1,004)	(1,004)
At December 31, 2017		53,773	8,347	(56,230)	5,890

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, 2017

1. Corporate Information

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

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

2. Basis of Presentation

a) Statement of compliance

These condensed consolidated interim financial statements for six months ended December 31, 2017 have been prepared in accordance with *IAS 34 – Interim Financial Reporting* and should be read in conjunction with the Company's June 30, 2017 audited annual financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's board of directors approved the release of these condensed consolidated interim financial statements on February 27, 2018.

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, 2017 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, 2017

2. Basis of Presentation (continued)

c) Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of IBC and its subsidiaries at December 31, 2017. The principal subsidiaries are:

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

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

d) Financial instruments

At December 31, 2017, the Company did not have available-for-sale or held-to maturity financial instruments.

The Company classifies its financial instruments as follows:

		December 31 2017 \$	June 30 2017 \$
Loans and receivables, recorded at amortized cost	<ul style="list-style-type: none"> • Cash • Receivables • Deposits 	377 2,953 -	100 2,428 -
Financial liabilities, recorded at amortized cost	<ul style="list-style-type: none"> • Lines of credit • Accounts payable and accrued liabilities • Loan and notes payable • Arbitration award liability 	2,832 3,574 1,350 1,395	2,600 3,102 1,380 1,395

e) Going concern of operations

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

As of December 31, 2017, the Company had not yet achieved profitable operations, incurred a loss of \$1,004 during the six months ended December 31, 2017 and, as of that date, the Company had accumulated losses of \$56,230 since inception and was in breach of certain bank covenants related to its line of credit and term loan facility, which had not been rectified by the date of these financial statements. 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.

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, 2017

2. Basis of Presentation (continued)

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.

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

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

IBC ADVANCED ALLOYS CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2017

3. Adoption of New Accounting Pronouncements and Recent Developments

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

New standards, interpretations and amendments not yet effective

a) IFRS 9 - Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace *IAS 39 - Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. On July 24, 2014, the IASB affirmed its proposal to defer the effective date of IFRS 9 to periods beginning after January 1, 2018. Earlier application of IFRS 9 continues to be permitted. The Company does not intend to early adopt this standard. Due to the nature of the company's operations, the adoption of IFRS 9 and the recognition of expected credit losses will impact the Company's provision for impairment related to its receivables from customers.

b) IFRS 15 - Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board issued IFRS 15, Revenue from Contracts with Customers, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2017 and allows early adoption. On July 22, 2015, the IASB unanimously affirmed its proposal to defer the effective date of IFRS 15 to periods beginning after January 1, 2018. Earlier application of IFRS 15 continues to be permitted. The Company does not intend to early adopt this standard. This standard is not expected to materially affect the Company's Consolidated Statements of Loss and Other Comprehensive Loss, but is expected to require additional disclosures.

c) IFRS 16 - Leases

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

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

IBC ADVANCED ALLOYS CORP.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the Six Months Ended December 31, 2017

4. Critical Accounting Estimates and Judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below (note 20).

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

5. Capital Management

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

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

The Company's bank agreements require that it maintain a minimum net worth and certain ratios indicating debt coverage and debt-to-tangible net worth. In addition, there are limitations on dividends and capital withdrawals, including intercompany transfers. Imposed bank restrictions currently prevent the Company from transferring funds from Copper Alloys to our other segments.

There were no changes to the Company's approach to capital management during the six months ended December 31, 2017 from the year ended June 30, 2017.

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, 2017

6. Receivables

	December 31 2017	June 30 2017
	\$	\$
Trade accounts receivable	3,044	2,438
Provision for impairment	(92)	(13)
Net trade accounts receivable	2,952	2,425
Other receivables	1	3
	2,953	2,428

At December 31, 2017, trade accounts receivable of \$2,539 (June 30, 2017 - \$2,042) held by Copper Alloys were pledged as collateral for bank loans (notes 10 and 12) and trade accounts receivable of \$414 (June 30, 2017 - \$386) held by EMC were pledged as collateral for notes payable (note 12). At December 31, 2017 and June 30, 2017, the Company made a full allowance for the collectability of receivables that extended beyond the agreed-upon payment terms with customers.

7. Inventories

	December 31, 2017			June 30, 2017		
	Cost	Valuation Provision	Net	Cost	Valuation Provision	Net
	\$	\$	\$	\$	\$	\$
Raw Materials	2,647	(20)	2,627	3,257	(20)	3,237
Work in process	1,630	-	1,630	1,202	-	1,202
Finished goods	665	(138)	527	529	(138)	391
	4,942	(158)	4,784	4,988	(158)	4,830

At December 31, 2017, the Company recognized a \$158 valuation provision (June 30, 2017 - \$158). At December 31, 2017, inventories of \$3,330 (June 30, 2017 - \$3,308) held by Copper Alloys were pledged as collateral for bank loans (notes 10 and 12) and inventories of \$1,454 (June 30, 2017 - \$1,522) held by EMC were pledged as collateral for notes payable (note 12).

During the three months ended December 31, 2017, cost of sales included materials of \$2,054 (December 31, 2016 - \$1,693), and labor of \$861 (December 31, 2016 - \$752). During the six months ended December 31, 2017, cost of sales included materials of \$3,676 (December 31, 2016 - \$3,165), and labor of \$1,704 (December 31, 2016 - \$1,659)

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, 2017

8. Property, Plant, and Equipment

	Land	Machinery and Equipment	Vehicles	Leasehold Improve- ments	Furniture and Fixtures	Total
	\$	\$	\$	\$	\$	\$
Cost						
At June 30, 2016	510	8,302	9	4,668	110	13,599
Purchases	-	1,791	-	-	-	1,791
Disposals	-	(496)	-	-	(27)	(523)
At June 30, 2017	510	9,597	9	4,668	83	14,867
Purchases	-	147	-	-	12	159
Disposals	-	-	-	-	-	-
At December 31, 2017	510	9,744	9	4,668	95	15,026
Accumulated depreciation and impairment						
At June 30, 2016	90	5,294	3	1,763	105	7,255
Depreciation expense	-	492	2	250	3	747
Retirements	-	(204)	-	-	(27)	(231)
At June 30, 2017	90	5,582	5	2,013	81	7,771
Depreciation expense	-	252	1	134	1	388
Retirements	-	-	-	-	-	-
At December 31, 2017	90	5,834	6	2,147	82	8,159
Net book value						
At June 30, 2016	420	3,008	6	2,905	5	6,344
At June 30, 2017	420	4,015	4	2,655	2	7,096
At December 31, 2017	420	3,910	3	2,521	13	6,867

At December 31, 2017, the Company had pledged property, plant, and equipment held by Copper Alloys with a net book value of \$3,240 (June 30, 2017 - \$3,407) as collateral for bank loans (notes 10 and 12).

Presentation of the Company's depreciation and amortization expense, including amortization of intangible assets (note 9), is as follows:

	Three months ended December 31		Six months ended December 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Cost of revenue	202	229	385	431
Selling, general and administrative expenses	1	2	3	8
Total depreciation and amortization expense	203	231	388	439

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

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

For the Six Months Ended December 31, 2017

9. Intangible Assets

	Trade Names	Customer Relationships	Technology	Total
	\$	\$	\$	\$
Cost				
At June 30, 2016, June 30, 2017 and December 31, 2017	1,178	1,657	471	3,306
Accumulated amortization and impairment				
At June 30, 2016, At June 30, 2017 and December 31, 2017	1,178	1,657	471	3,306
Net book value				
At June 30, 2016, At June 30, 2017 and December 31, 2017	-	-	-	-

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, 2017

10. Line of Credit

	December 31 2017 \$	June 30 2017 \$
Line of credit with BMO Harris Bank (maximum \$3,500 - June 30, 2017 maximum of \$3,500) at one-month LIBOR plus 3.75% (LIBOR plus 3.75% at June 30, 2017), renewed at January 31, 2018 on substantially similar terms to July 31, 2018, collateralized by substantially all of Nonferrous' and Freedom's assets. (Note 2)	2,832	2,600
	<u>2,832</u>	<u>2,600</u>

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

The Company's line of credit agreement with BMO Harris Bank requires that the Company maintain minimum net worth, minimum debt coverage, and debt-to-tangible net worth ratios. In addition, there are limitations on dividends and capital withdrawals. During the year ended June 30, 2017, the Company breached certain covenants associated with the line of credit and term loan (note 12), which were not resolved at the date of these financial statements.

11. Accounts Payable and Accrued Liabilities

	December 31 2017 \$	June 30 2017 \$
Trade accounts payable	2,353	1,315
Employee wages and payroll withholdings	147	135
Accrued liabilities	1,003	1,580
Lease inducement - current portion	71	72
Accounts payable and accrued liabilities - current	<u>3,574</u>	<u>3,102</u>
Arbitration award liability	1,395	1,395
Lease inducement - long-term	177	213

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, 2017, the remaining lease inducement was \$248 (June 30, 2017 - \$285).

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, 2017

12. Loan and Notes Payable, Related Parties

	December 31 2017 \$	June 30 2017 \$
Loan payable to BMO Harris Bank in monthly payments of \$10 including interest at 4.98% per year to September 30, 2019, collateralized by substantially all the assets of Nonferrous and Freedom. (Note 2)	1,050	1,080
Notes payable to related parties with monthly accrued interest at 10% per year, principal due February 4, 2019 and March 31, 2019; monthly accrued interest at 12% per year, principal due February 28, 2019 and March 13, 2019, secured by accounts receivable and inventory of Engineered Materials.	300	300
	<u>1,350</u>	<u>1,380</u>
Financial statement presentation:		
Loans payable	1,050	1,080
Notes payable, related parties	300	300
	<u>1,350</u>	<u>1,380</u>

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

The Company's bank loan with BMO Harris Bank requires that the Company maintain minimum net worth, minimum debt coverage, and debt-to-tangible net worth ratios. During the year ended June 30, 2017, the Company breached certain covenants associated with the line of credit (note 10) and term loan, which were not resolved at the date of these 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, 2017

13. Share Capital*Authorized capital*

Unlimited number of common shares without par value.

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

Issued capital

No preferred shares.

	Number of Shares	Common Shares \$
June 30, 2016	29,935,162	52,499
Subscription received	-	2
Shares issue for services	411,428	185
June 30, 2017	30,346,590	52,686
Private placement	3,828,525	1,119
Shares issue costs	-	(32)
December 31, 2017	34,175,115	53,773

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, 2017

13. Share Capital (continued)

Fiscal 2018

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

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

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

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

Fiscal 2017

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

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

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

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, 2017

14. Reserves

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

	Warrants	Share-based compensation reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$
At June 30, 2016	524	7,330	162	8,016
Foreign currency translation reserve	-	-	(4)	(4)
Shares for services	-	48	-	48
Share-based compensation	-	153	-	153
At June 30, 2017	524	7,531	158	8,213
Foreign currency translation reserve	-	-	1	1
Shares for services	-	91	-	91
Share-based compensation	-	42	-	42
At December 31, 2017	524	7,664	159	8,347

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, 2017

15. Share-Based Payments

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

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

Option Grants

A summary of stock option activity to December 31, 2017 is as follows:

	Stock Options Outstanding	Weighted Average Exercise Price C\$
June 30, 2016	2,487,500	0.85
Expired	(415,750)	1.34
At June 30, 2017 and December 31, 2017	2,071,750	0.75

During the three months ended December 31, 2017, the Company recognized share-based compensation and share-based services expense of \$52 (December 31, 2016 - \$115) and \$133 during the six months ended December 31, 2017 (December 31, 2016 - \$219).

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, 2017

15. Share-Based Payments (continued)

At December 31, 2017, the Company had outstanding and exercisable stock options as follows:

Exercise Price	Outstanding Options			Exercisable Options	
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
C\$			C\$		C\$
0.37	907,000	3.29 years	0.37	907,000	0.37
0.77	676,000	3.38 years	0.77	338,000	0.77
1.20	97,000	2.55 years	1.20	72,750	1.20
1.40	75,250	0.87 years	1.40	75,250	1.40
1.50	316,500	0.84 years	1.50	316,500	1.50
	<u>2,071,750</u>	2.82 years	0.75	<u>1,709,500</u>	0.74

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

	2017	2016
Annualized stock price volatility	172%	169%
Risk-free interest rate	0.60%	0.59%
Expected option lives	3.2 years	5.0 years
Dividend yield	0.0%	0.0%

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

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

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

For the Six Months Ended December 31, 2017

16. Warrants

	Financing Warrants		Broker Warrants	
	Warrants Outstanding	Weighted Average Exercise Price C\$	Warrants Outstanding	Weighted Average Exercise Price C\$
At June 30, 2016	21,001,670	0.55	1,013,400	0.44
Issued	-	-	-	-
Expired	(875,000)	1.80	(106,400)	1.00
At June 30, 2017 and December 31, 2017	20,126,670	0.50	907,000	0.38

At December 31, 2017, warrants were outstanding enabling holders to acquire common shares or units as follows:

Number of Financing Warrants	Number of Broker Warrants	Exercise Price C\$	Expiry Date
20,126,670	907,000	0.375	May 24, 2021

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

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

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

For the Six Months Ended December 31, 2017

17. Related Parties Transactions

Key management personnel compensation was:

	Three months ended		Six months ended	
	December 31		December 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Short-term employee benefits	231	398	504	709
Share-based payments	19	74	39	225
	250	472	543	934

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

As of December 31, 2017, \$203 (June 30, 2017 - \$122) is owing to directors and officers for services and \$8 (June 30, 2017 - \$7) is owing to officers for expenses paid on the Company's behalf.

As of December 31, 2017, \$300 (June 30, 2017 - \$301) is owing to a director and officer and individuals related to him for notes payable principal and interest (note 12). During the three months ended December 31, 2017, the Company incurred interest expense of \$9 (December 31, 2016 - \$9) and \$17 during the six months ended December 31, 2017 (December 31, 2016 - \$18) on amounts due to related parties.

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

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

For the Six Months Ended December 31, 2017

18. Commitments and Contingencies

The Company has entered into commercial property leases. These leases have an average remaining life of 2.6 years, with no renewal options. The future minimum rental payments under non-cancellable operating leases at December 31, 2017 are:

Period ending June 30	\$
2018	269
2019	539
2020	509
Subsequent	257
	<u>1,574</u>

The Company recognized lease expense of \$157 for the three months ended December 31, 2017 (December 31, 2016 - 118) and \$283 for the six months ended December 31, 2017 (December 31, 2016 - \$254).

The Company is contractually committed to purchase, at December 31, 2017 prices, an aggregate of \$3,984 (June 30, 2017 - \$1,409) 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	\$
2018	2,329
2019	<u>1,655</u>
	<u>3,984</u>

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

The Company had no contingent liabilities as of December 31, 2017 and June 30, 2017.

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, 2017

19. Segment Reporting

As of December 31, 2017, the Company had three reportable segments: Copper Alloys, Engineered Materials and Corporate. As of December 31, 2017, the Company had two manufacturing segments: Copper Alloys and Engineered Materials. The manufacturing segments produce beryllium copper, Beralcast[®] and other specialty alloy products. Corporate oversees and administers the operating divisions. In prior periods, the Company also had Research & Development but it is no longer material and is incorporated into the Corporate segment.

The accounting policies of the segments are the same as described in note 25 of the June 30, 2017 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, 2017				
Revenue from external customers	3,393	1,335	-	4,728
Depreciation and amortization	104	99	-	203
Share-based compensation	6	4	19	29
Interest expense	48	9	-	57
Other income (expense)	(1)	2	-	1
Operating income (loss)	10	(153)	(158)	(301)
Foreign exchange loss				(36)
Interest expense				(57)
Other expense				1
Loss before income taxes				(393)
Income tax expense (recovery)	(2)	(1)	(6)	(9)
Capital expenditures	(3)	61	-	58

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, 2017

19. Segment Reporting (continued)

	Copper Alloys	Engineered Materials	Corporate	Total
	\$	\$	\$	\$
Three months ended December 31, 2016				
Revenue from external customers	2,623	948	-	3,571
Depreciation and amortization	149	83	-	232
Share-based compensation	13	9	70	92
Interest expense	38	9	-	47
Other income	-	-	10	10
Operating income (loss)	(38)	(296)	(466)	(800)
Gain on disposal of assets				(2)
Interest expense				(47)
Interest income				1
Other income				10
Loss before income taxes				(838)
Income tax expense	-	-	-	-
Capital expenditures	-	84	-	84
Six months ended December 31, 2017				
Revenue from external customers	6,242	2,784	-	9,026
Depreciation and amortization	189	199	-	388
Share-based compensation	12	8	68	88
Interest expense	97	17	-	114
Other income	1	2	-	3
Loss before other items	(259)	(221)	(356)	(836)
Foreign exchange loss				(46)
Interest expense				(114)
Interest income				1
Other income				3
Loss before income taxes				(992)
Income tax expense	(2)	(4)	(6)	(12)
Capital expenditures	20	138	-	158

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

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

For the Six Months Ended December 31, 2017

19. Segment Reporting (continued)

	Copper Alloys	Engineered Materials	Corporate	Total
	\$	\$	\$	\$
Six months ended December 31, 2016				
Revenue from external customers	5,288	1,546	-	6,834
Depreciation and amortization	297	166	-	463
Share-based compensation	26	18	129	173
Interest expense	71	18	-	89
Other income	-	-	30	30
Loss before other items	(536)	(955)	(906)	(2,397)
Foreign exchange gain				12
Interest expense				(89)
Loss on disposal of assets				(2)
Interest income				1
Other income				30
Loss before income taxes				(2,445)
Income tax recovery (expense)	-	-	-	-
Capital expenditures	-	84	-	84

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

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

For the Six Months Ended December 31, 2017

19. Segment Reporting (continued)

Total assets employed by each division are:

	December 31	June 30
	2017	2017
	\$	\$
Copper Alloys	9,174	8,843
Engineered Materials	6,036	5,911
Corporate	230	143
	15,440	14,897

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
	2017	2017
	\$	\$
Copper Alloys	6,108	5,223
Engineered Materials	3,021	3,542
Corporate	421	459
	9,550	9,224

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	
	2017	2016	2017	2016
	\$	\$	\$	\$
United States	2,750	2,433	5,448	5,327
All others	1,978	1,138	3,578	1,507
	4,728	3,571	9,026	6,834

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

The following customers represented more than 10% of sales:

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
	\$		\$	
Customer A	1,224	13.6	-	-
Customer B	-	-	896	13.1
Customer C	1,453	16.1	-	-

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

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

For the Six Months Ended December 31, 2017

19. Segment Reporting (continued)

Property, plant and equipment and intangible assets	December 31 2017	June 30 2017
	\$	\$
United States	6,867	7,096

20. 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, 2017 from the year ended June 30, 2017.

Fair Values

The Company's financial instruments classified as level 1 use quoted prices in active markets including cash. The Company does not hold any financial instruments subject to level 2 or 3 fair value measurements. There were no changes in level 1, 2, or 3 financial instruments during the six months ended December 31, 2017.

Foreign Exchange Risk

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

As of December 31, 2017 with other variables unchanged, a 1% increase (decrease) in the Canadian dollar would increase (decrease) net earnings by approximately \$3 (June 30, 2017 - \$nil).

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, 2017

20. Financial Risk Management (continued)

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

Balances at December 31, 2017	
Cash and cash equivalents	170
Receivables	-
Accounts payable and accrued liabilities	369

Balances at June 30, 2017	
Cash and cash equivalents	9
Receivables	-
Accounts payable and accrued liabilities	240

Interest Rate Risk

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

As of December 31, 2017, with other variables unchanged, a 1% increase (decrease) in the interest rate paid on short-term deposits would increase earnings by approximately \$nil (December 31, 2016 - nil).

As of December 31, 2017, with other variables unchanged, a 1% increase (decrease) in the interest paid on the BMO Harris Bank line of credit would decrease earnings by approximately \$28 (December 31, 2016 - \$nil).

Commodity Price Risk

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

Credit Risk

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

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

The Company also manages its credit risk by investing its cash only in obligations of Canada or the United States or their respective agencies, obligations of enterprises sponsored by any of the above governments; bankers' acceptances purchased in the secondary market and having received the highest credit rating from a

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, 2017

20. Financial Risk Management (continued)

recognized rating agency in Canada or the United States, with a term of less than 180 days; and bank term deposits and bearer deposit notes, with a term of less than 180 days.

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

Liquidity Risk

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

December 31, 2017	Less than three months \$	Three to 12 months \$	One to five years \$	Total \$
Trade and other payables	3,403	171	-	3,574
Line of credit	2,832	-	-	2,832
Notes payable, related parties	300	-	-	300
Loan	1,050	-	-	1,050
Arbitration award liability	-	-	1,395	1,395
	<u>7,585</u>	<u>171</u>	<u>1,395</u>	<u>9,151</u>

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

See notes 10 and 12 for contractual undiscounted cash flow requirements for the line of credit and loan payable as at December 31, 2017.

Fair Value

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

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

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

For the Six Months Ended December 31, 2017

21. Loss Per Share

	Three months ended		Six months ended	
	December 31		December 31	
	2017	2016	2017	2016
Loss for the period (\$000)	(402)	(838)	(1,004)	(2,445)
Weighted average number of common shares outstanding	34,175,115	30,157,934	33,925,429	30,070,901
Loss per share, basic and diluted (\$ per share)	(0.01)	(0.03)	(0.03)	(0.08)

Diluted loss per share for the periods ended December 31, 2017 and 2016 is the same as basic loss per share as the exercise of the 2,071,750 share options (December 31, 2016 – 2,375,000) and 21,033,670 warrants (December 31, 2016 – 22,015,070) would be anti-dilutive.