

**IBC ADVANCED ALLOYS CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**Expressed in United States Dollars**  
**Unaudited – Prepared by Management**

**DECEMBER 31, 2009**

**IBC ADVANCED ALLOYS CORP.**  
**Consolidated Balance Sheets**  
(US dollars in thousands)  
Unaudited – Prepared by Management

	Note	December 31, 2009	June 30, 2009 (Audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 101	\$ 841
Receivables		2,852	1,730
Income taxes refundable		426	562
Inventories	5	3,165	3,524
Prepaid expenses and deposits		80	44
Total current assets		6,624	6,701
Deposits		13	13
Deferred financing costs		120	-
Property, plant and equipment	6	6,122	6,461
Mineral properties	7	1,432	1,284
Intangible assets	8	2,500	2,762
Other assets		89	85
		\$ 16,900	\$ 17,306
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Lines of credit	9	\$ 2,813	\$ 2,979
Accounts payable and accrued liabilities	16	1,996	1,048
Current portion of loans payable	10	1,068	2,681
Convertible note	11	143	-
Interest rate swap	15	61	63
Total current liabilities		6,081	6,771
Notes payable	10	3,000	3,000
Loans payable	10	1,516	4
Future income taxes		2,113	2,255
		12,710	12,030
<b>Shareholders' equity</b>			
Common shares	12	19,654	19,654
Equity component of convertible debt	11	126	-
Contributed surplus		3,529	3,462
Brokers' warrants	14	483	483
Deficit		(19,602)	(18,323)
		4,190	5,276
		\$ 16,900	\$ 17,306

**Ability to continue as a going concern** (note 2)

**Subsequent events** (note 20)

**On behalf of the board of directors:**

<u>"Dal Brynelsen"</u>	Director	<u>"Denis Brady"</u>	Director
Dal Brynelsen		Denis Brady	

**The accompanying notes are an integral part of these financial statements.**

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

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

Unaudited – Prepared by Management

	Note	Three Months Ended		Six Months Ended	
		December 31		December 31	
		2009	2008 (Restated)	2009	2008 (Restated)
<b>Sales</b>		\$ 3,744	\$ 3,192	\$ 6,327	\$ 5,916
<b>Cost of goods sold</b>	6	2,896	2,794	5,275	5,308
<b>Gross profit</b>		848	398	1,052	608
<b>Selling, general and administrative expenses</b>					
Amortization	6	130	145	257	255
Consulting fees	16	95	8	134	56
Director fees	16	14	-	28	-
Doubtful debts		6	59	9	59
Management and contractor fees	16	89	136	166	254
Office and miscellaneous		135	340	258	424
Professional fees		72	137	104	158
Public company costs		9	40	38	66
Research		74	26	149	100
Salaries and wages		372	339	672	534
Stock-based compensation	13	24	27	67	117
Travel, meals and entertainment		76	58	141	119
		1,096	1,315	2,023	2,142
<b>Loss before other items</b>		(248)	(917)	(971)	(1,534)
<b>Other income (expense)</b>					
Foreign exchange gain (loss)		(3)	(856)	11	(1,030)
Mineral property write-off	7	-	(191)	-	(191)
Goodwill impairment provision		-	(5,300)	-	(5,300)
Interest expense					
- On debt with an initial term of less than one year		(77)	(49)	(107)	(73)
- On debt with an initial term of more than one year		(116)	(78)	(253)	(102)
(Loss) gain on financial instruments held for trading		7	(77)	2	(76)
Interest income		-	30	-	86
Other income		23	2	33	2
<b>Loss before income taxes</b>		(414)	(7,436)	(1,285)	(8,218)
<b>Income tax (expense) recovery</b>					
Current		(136)	-	(136)	-
Future		71	474	142	492
		(65)	474	6	492
<b>Loss and comprehensive loss for the period</b>		\$ (479)	\$ (6,962)	\$ (1,279)	\$ (7,726)
<b>Basic and diluted loss per common share</b>		\$ (0.00)	\$ (0.07)	\$ (0.01)	\$ (0.07)
<b>Weighted average number of common shares outstanding</b>		115,709,480	106,365,278	115,709,480	105,370,713

The accompanying notes are an integral part of these financial statements.

**IBC ADVANCED ALLOYS CORP.**  
**Consolidated Statements of Cash Flows**  
(US dollars in thousands)  
Unaudited – Prepared by Management

	Note	Three Months Ended December 31		Six Months Ended December 31	
		2009	2008	2009	2008
<b>Cash flows from (used in) operating activities</b>					
Loss for the period		\$ (479)	\$ (6,962)	\$ (1,279)	\$ (7,726)
Items not involving cash					
Future income taxes		(71)	(474)	(142)	(492)
Stock-based compensation	13	24	27	67	117
Mineral property write-off	7	-	191	-	191
Impairment of goodwill		-	5,300	-	5,300
Doubtful debts expense		6	59	9	59
Inventory write-down		-	16	-	116
Amortization	6	331	246	694	389
Accrued income		-	2	-	-
Loss on financial liabilities held for trading		(7)	77	(2)	76
Unrealized foreign exchange gain (loss)		3	856	(11)	1,030
Changes in non-cash working capital items:					
Receivables		(961)	910	(1,122)	451
Income taxes refundable		105	-	136	-
Inventories		353	288	359	440
Prepaid expenses		209	(9)	(36)	(26)
Accounts payable and accrued liabilities		346	(569)	960	(909)
Net cash used in operating activities		(141)	(42)	(367)	(984)
<b>Cash flows from financing activities</b>					
Deferred financing costs		(120)	-	(120)	-
Loan repayments	10	(44)	(33)	(101)	(94)
Loan proceeds	10	-	2,500	-	2,500
Convertible note proceeds	11	238	-	238	-
Repayment of line of credit	10	(35)	(122)	(166)	(122)
Net cash provided by (used in) financing activities		39	2,345	(149)	2,284
<b>Cash flows used in investing activities</b>					
Investment in mineral properties		(16)	(25)	(143)	(384)
Purchase of plant and equipment		(30)	(30)	(92)	(53)
Purchase of Nonferrous, net of cash acquired		-	(5,524)	-	(5,557)
Net cash used in investing activities		(46)	(5,579)	(235)	(5,994)
Foreign exchange effect on cash		(3)	(856)	11	(1,031)
Change in cash and cash equivalents during the period		(151)	(4,132)	(740)	(5,725)
Cash and cash equivalents, beginning of period		252	4,773	841	6,366
Cash and cash equivalents, end of period		\$ 101	\$ 641	\$ 101	\$ 641

Supplementary cash flow information (note 17)

The accompanying notes are an integral part of these financial statements.

**IBC ADVANCED ALLOYS CORP.**  
**Consolidated Statements of Shareholders' Equity**  
(US dollars in thousands, except for share amounts)  
Unaudited – Prepared by Management

	Note	Number of Shares	Common Shares	Equity Component of Convertible Debt	Contributed Surplus	Brokers' Warrants	Deficit	Total Shareholders' Equity
At June 30, 2008		104,376,148	\$ 18,192	\$ -	\$ 2,943	\$ 498	\$ (3,692)	\$ 17,941
Broker warrants expired		-	-	-	70	(70)	-	-
Issued on purchase of Nonferrous		3,000,000	541	-	-	-	-	541
Private placement		8,333,332	1,029	-	-	-	-	1,029
Share issue costs		-	(108)	-	-	55	-	(53)
Loss on purchase of Specialloy		-	-	-	(269)	-	-	(269)
Stock-based compensation		-	-	-	718	-	-	718
Loss for the year		-	-	-	-	-	(14,631)	(14,631)
At June 30, 2009		115,709,480	19,654	-	3,462	483	(18,323)	5,276
Convertible note issuance	11	-	-	126	-	-	-	126
Stock-based compensation	13	-	-	-	67	-	-	67
Loss for the period		-	-	-	-	-	(1,279)	(1,279)
At December 31, 2009		115,709,480	\$ 19,654	\$ 126	\$ 3,529	\$ 483	\$ (19,602)	\$ 4,190

The accompanying notes are an integral part of these financial statements.

## IBC ADVANCED ALLOYS CORP.

Notes to the Consolidated Financial Statements

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

Six months ended December 31, 2009

Unaudited – Prepared by Management

### 1. Basis of Presentation and Restatement

These unaudited consolidated financial statements include the accounts of IBC Advanced Alloys Corp. (formerly International Beryllium Corporation) (“IBC”), and its subsidiaries. IBC and its subsidiaries are collectively referred to as the “Company”. All intercompany transactions and accounts have been eliminated upon consolidation. Except where indicated all amounts are expressed in United States dollars. The principal subsidiaries of the Company at December 31, 2009 and their geographic locations are listed below:

Entity	Location	Principal Activity	Ownership Interest
Mineração Berilo do Brasil Ltda.	Brazil	Exploration	100%*
IBC US Holdings, Inc.	United States	Holding company	100%
Freedom Alloys, Inc. (“Freedom”)	United States	Manufacturing	100%
Nonferrous Products, Inc. (“Nonferrous”)	United States	Manufacturing	100%
NF Industries, Inc.	United States	Holding company	100%
Specialloy Copper Alloys LLC (“Specialloy”)	United States	Manufacturing	100%
Rare Earths Limited, LLC (“REL”)	United States	Mineral exploration	100%
IBC Mineral Properties, Inc.	United States	Holding company	100%

\* 30% interest is held in trust for the Company

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (“Canadian GAAP”). They do not include all information and disclosures required for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements of the Company for the year ended June 30, 2009.

Certain comparative figures have been reclassified to conform to the presentation used in the current period.

Upon review of the Company’s comparative financial statements, the Company has reclassified \$240 of payroll expense from “salaries and wages” to “cost of sales”. This adjustment does not have any effect on loss for the period, loss per share, financial position or cash flows. The following represents components of the Company’s results of operations as previously reported and after giving effect to the restatement adjustments for the three- and six-month periods ended December 31, 2008:

	Three Months Ended December 31, 2008	Six Months Ended December 31, 2008
Cost of sales		
As previously recorded	\$ 2,554	\$ 5,068
Reclassification of payroll costs	240	240
As restated	\$ 2,794	\$ 5,308
Salaries and wages		
As previously recorded	\$ 579	\$ 774
Reclassification of payroll costs	(240)	(240)
As restated	\$ 339	\$ 534

## **IBC ADVANCED ALLOYS CORP.**

Notes to the Consolidated Financial Statements

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

Six months ended December 31, 2009

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### **2. Nature of Operations and Ability to Continue as a Going Concern**

The Company's principal activity is the production of beryllium copper and specialty alloy products, but is also sourcing and exploring for beryllium resource properties. The Company's mineral property activities are in the exploration stage and it has interests in resource properties located in the United States and Brazil.

The recoverability of amounts shown for resource properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, continuation of the Company's interest in the underlying resource claims, the ability of the Company to obtain necessary financing to complete its development and upon future profitable production or proceeds from its disposition.

At December 31, 2009, the Company had not yet achieved profitable operations, had accumulated losses of \$19,602 since inception and expects to incur further losses in the development of its business, all of which casts doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate profits from its operations to obtain financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

## **IBC ADVANCED ALLOYS CORP.**

Notes to the Consolidated Financial Statements

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

Six months ended December 31, 2009

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### **3. Adoption of New Accounting Pronouncements and Recent Developments**

*Accounting pronouncements implemented July 1, 2009*

*Goodwill and intangible assets*

Section 3064, "Goodwill and Intangible Assets", replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the Canadian Institute of Chartered Accountants ("CICA") Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new Section was adopted effective July 1, 2009. The Company has determined that the impact on its consolidated financial statements on the adoption of this accounting policy is not material.

*Business combinations, consolidated financial statements and non-controlling interest*

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-controlling Interests". These sections replace the former CICA Handbook Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements" and establish a new section for accounting for a non-controlling interest in a subsidiary. The Company has adopted these sections prospectively from July 1, 2009. Adoption of these standards has not had a material effect on the Company's consolidated financial statements.

CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "Business Combinations" (January 2008).

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, "Consolidated and Separate Financial Statements" (January 2008). The Company does not have any investments with a non-controlling interest.

*General accounting*

CICA Handbook Section 1000 has been amended to focus on the capitalization of costs that meet the definition of an asset and de-emphasizes the matching principle. The revised requirements have been adopted effective for annual and interim financial statements from July 1, 2009. The Company has determined that the impact of adopting this standard is not material.

## **IBC ADVANCED ALLOYS CORP.**

Notes to the Consolidated Financial Statements

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

Six months ended December 31, 2009

Unaudited – Prepared by Management

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### **3. Adoption of New Accounting Pronouncements and Recent Developments (continued)**

#### *Financial instruments*

CICA Handbook Section 3862, “Financial Instruments – Disclosures” was amended in June 2009. It establishes revised standards for the disclosure of financial instruments. The new standard established a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company’s investments. The hierarchy of inputs and description of inputs is described as follows:

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data, which are unobservable inputs.

Changes in valuation methods may result in transfers into or out of an investment’s assigned level. During the period ended December 31, 2009, there were no significant transfers between level 1 and 2. The required disclosures are included in note 19.

#### *Future accounting changes*

##### *International Financial Reporting Standards*

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS. IFRS will replace Canadian GAAP for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will begin reporting under IFRS in the year ended June 30, 2012. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. The Company has begun assessing the adoption of IFRS for fiscal 2012; the following IFRS standards are expected to have the most significant impact:

- IFRS 1 – First-time adoption of IFRS
- IFRS 2 – Share Based Payments
- IFRS 6 – Exploration and evaluation of mineral resources
- IAS 16 – Property, plant and equipment
- IAS 36 – Impairment of Assets

## IBC ADVANCED ALLOYS CORP.

Notes to the Consolidated Financial Statements

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

Six months ended December 31, 2009

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### 4. 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, warrants and deficit. The capital structure of the Company is managed to provide sufficient funding for manufacturing, mineral exploration 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. Freedom was in violation of certain covenants during the six months ended December 31, 2009 and accordingly the Company has classified certain loan payable obligations as current liabilities that would otherwise be considered long-term (note 10).

The Company classifies its financial instruments as follows:

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Held for trading, measured at fair value	<ul style="list-style-type: none"><li>• Interest rate swaps</li><li>• Cash and cash equivalents</li></ul>
Loans and accounts receivable, recorded at amortized cost	<ul style="list-style-type: none"><li>• Receivables</li></ul>
Financial liabilities, recorded at amortized cost	<ul style="list-style-type: none"><li>• Lines of credit</li><li>• Accounts payable and accrued liabilities</li><li>• Notes payable</li><li>• Loans payable</li><li>• Convertible note</li></ul>

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### 5. Inventories

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	December 31, 2009			June 30, 2009
	Cost	Valuation Provision	Net	
Raw materials	\$ 1,063	\$ (53)	\$ 1,010	\$ 1,077
Work in process	646	(4)	642	740
Finished goods	1,591	(78)	1,513	1,707
	\$ 3,300	\$ (135)	\$ 3,165	\$ 3,524

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**IBC ADVANCED ALLOYS CORP.**

Notes to the Consolidated Financial Statements

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

Six months ended December 31, 2009

Unaudited – Prepared by Management

**6. Property, Plant and Equipment**

	Land	Machinery and Equipment	Vehicles	Leasehold Improve- ments	Furniture and Fixtures	Total
<b>Cost</b>						
At June 30, 2009	\$ 426	\$ 5,338	\$ 73	\$ 1,921	\$ 135	\$ 7,893
Purchases	-	91	-	1	-	92
At December 31, 2009	426	5,429	73	1,922	135	7,985
<b>Accumulated amortization</b>						
At June 30, 2009	-	1,264	51	64	52	1,431
Amortization expense	-	333	6	78	15	432
At December 31, 2009	-	1,597	57	142	67	1,863
<b>Net book value</b>						
At June 30, 2009	426	4,074	22	1,856	83	6,461
At December 31, 2009	\$ 426	\$ 3,832	\$ 16	\$ 1,780	\$ 68	\$ 6,122

The cost of internally developed equipment includes materials, direct labour, and direct labour-related costs.

Presentation of the Company's amortization expense, including amortization of intangible assets (note 8), is as follows:

	Three months ended December 31		Six months ended December 31	
	2009	2008	2009	2008
Cost of goods sold	\$ 201	\$ 101	\$ 437	\$ 134
Selling general and administrative expenses	130	145	257	255
Total amortization expense	\$ 331	\$ 246	\$ 694	\$ 389

The Company has pledged substantially all of its plant and equipment as collateral for bank loans (note 10).

**IBC ADVANCED ALLOYS CORP.**

Notes to the Consolidated Financial Statements

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

Six months ended December 31, 2009

Unaudited – Prepared by Management

**7. Mineral Properties**

	Brazil		Uganda	United States		Total
	Coronel Murta	Santa Maria		Lake George (Boomer)	Spor Mountain	
At June 30, 2008	\$ 230	\$ 230	\$ 185	\$ 151	\$ 250	\$ 1,046
Acquisition, including staking	-	-	-	196	-	196
Deferred exploration expenditures						
Administration and general	4	4	-	-	-	8
Consulting	28	28	5	-	-	61
Filing fees	-	-	-	-	-	-
Geological and geophysical	24	24	-	-	-	48
Legal	-	-	1	-	-	1
Permits	-	-	-	92	23	115
Written off	-	-	(191)	-	-	(191)
At June 30, 2009	286	286	-	439	273	1,284
Deferred exploration expenditures						
Administration and general	6	6	-	-	-	12
Consulting	6	6	-	-	-	12
Geological and geophysical	6	6	-	-	-	12
Permits	-	-	-	61	51	112
At December 31, 2009	\$ 304	\$ 304	\$ -	\$ 500	\$ 324	\$ 1,432

In fiscal 2009, the Company relinquished its property rights in Uganda and accordingly wrote off the value of its Ugandan properties.

**IBC ADVANCED ALLOYS CORP.**

Notes to the Consolidated Financial Statements

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

Six months ended December 31, 2009

Unaudited – Prepared by Management

**8. Intangible Assets**

	Trade Names	Customer Relationships	Data Library	Total
<b>Cost</b>				
At June 30, 2009	\$ 928	\$ 1,427	\$ 923	\$ 3,278
At December 31, 2009	928	1,427	923	3,278
<b>Accumulated amortization</b>				
At June 30, 2009	194	253	69	516
Amortization expense	156	75	31	262
At December 31, 2009	350	328	100	778
<b>Net book value</b>				
At June 30, 2009	734	1,174	854	2,762
At December 31, 2009	\$ 578	\$ 1,099	\$ 823	\$ 2,500

**9. Lines of Credit**

	December 31 2009	June 30 2009
Line of credit with New Century Bank (maximum \$2,000) at 5.85% collateralized by substantially all of Freedom's assets.	\$ 1,800	\$ 1,700
Line of credit with M&I Bank (maximum \$2,500) at one-month LIBOR plus 3.75% (3.98% at December 31, 2009), with a minimum rate of 5.00%, collateralized by substantially all of Nonferrous' assets.	1,013	1,279
	\$ 2,813	\$ 2,979

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

**IBC ADVANCED ALLOYS CORP.**

Notes to the Consolidated Financial Statements

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

Six months ended December 31, 2009

Unaudited – Prepared by Management

**10. Loans and Notes Payable**

	December 31, 2009	June 30, 2009
Note payable to New Century Bank in monthly payments of \$15 including interest at 8.00% per year to August 2016, collateralized by substantially all assets of Freedom.	\$ 983	\$ 1,038
Loan payable to M&I Bank in monthly principal payments of \$7 plus the monthly accrued interest at 6.15% per year to October 15, 2011, collateralized by substantially all the assets of Nonferrous (see interest rate swap, note 15).	1,601	1,643
Notes payable to vendors of Nonferrous due October 31, 2011 bearing interest at an annual rate of 8%, payable monthly, collateralized by a stock pledge agreement by IBC US Holdings, Inc. and Nonferrous	3,000	3,000
Note payable to a finance company in monthly payments of \$1 including interest at 3.90% per year to November 2010, collateralized by the vehicle acquired. This note was repaid during the period.	-	4
Balance outstanding	<u>\$ 5,584</u>	<u>\$ 5,685</u>
Financial statement presentation:		
Current portion of loans payable	\$ 1,068	\$ 2,681
Long-term loans payable	1,516	4
Notes payable	3,000	3,000
	<u>\$ 5,584</u>	<u>\$ 5,685</u>

**IBC ADVANCED ALLOYS CORP.**

Notes to the Consolidated Financial Statements

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

Six months ended December 31, 2009

Unaudited – Prepared by Management

**10. Loans and Notes Payable (continued)**

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

Contractual aggregate maturities required on notes and loans payable at December 31, 2009 are as follows:

Year ending June 30	
2010	\$ 1,026
2011	1,558
2012	3,000
	<u>\$ 5,584</u>

The New Century Bank and M&I bank loan agreements 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. The Company has been in violation of certain of the above covenants for its banks loans but both New Century Bank and M&I Bank have waived the debt service violations. Subsequently, Freedom was still in breach of one covenant on the New Century bank loan and so the Company has classified the long-term obligation to New Century Bank as current.

**11. Convertible Note**

In December 2009, the Company closed a convertible note (the "Note") financing in the principal amount of C\$250 (\$238) issued to Firebird Global Master Fund II, Ltd. ("Firebird"). Firebird is the registered holder and beneficial owner of 13,333,954 outstanding common shares of the Company; therefore it is an insider of the Company by way of holding more than 10% of the voting rights attached to outstanding common shares. The Note will mature on the earlier of April 1, 2010 and the closing of an offering by the Company, and bears interest at a rate of 10% per year. The Note is convertible into units comprising one common share and one full warrant. If Firebird elects to convert the Note before the Company completes an offering of at least C\$2,000, or if the Company does not complete an offering, the conversion price will be C\$0.14 per unit. If an offering closes, the Note will automatically convert into units at a 20% discount to the offering price of the financing. Firebird has the option to convert accrued interest under the Note into common shares at a rate of C\$0.14 per share.

The transaction was measured at exchange amount.

	Liability Component		Equity Component	
June 30, 2009	\$	-	\$	-
Gross proceeds		112		126
Accretion		31		-
December 31, 2009	\$	143	\$	126

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### **12. Share Capital**

#### *Authorized capital*

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.

Unlimited number of common shares without par value. In November 2009, the Company's shareholders provided authorization for the board of directors to undertake a consolidation of the Company's common shares up to one-post consolidation share for each three pre-consolidation shares. The Company's board of directors has decided not to effect a share consolidation.

#### *Issued capital*

No preferred shares.

115,709,480 common shares

#### *Escrow shares*

As at December 31, 2009, 16,937,646 (June 30, 2009 – 25,406,471) common shares were held in escrow to be released in two final installments of 8,468,823 on May 23, 2010 and November 23, 2010.

#### *Short form prospectus financing*

In November 2009, the Company filed a preliminary short-form prospectus with securities regulatory authorities in connection with an offering of units for gross proceeds of up to C\$8,000, subject to a 15% over-allotment option. In February 2010, the Company filed an amended and restated preliminary prospectus in respect of this offering, increasing the offering size as described in note 20.

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**13. Stock Options**

On August 27, 2007, IBC's board of directors adopted a rolling stock option plan, subsequently approved by shareholders and adopted by the Company, 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 stock. 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 five years and vest as determined by the board of directors. The Company's shares trade in Canadian dollars and options granted to date have been denominated in Canadian funds.

In November 2009, the Company's shareholders approved a 2009 amended stock option plan at the Company's annual general meeting.

A summary of stock option activity to December 31, 2009 is as follows:

	Stock Options Outstanding	Weighted Average Exercise Price
June 30, 2009	9,704,000	C\$0.19
Granted	200,000	C\$0.15
Exercised	-	-
Expired or forfeited	-	-
December 31, 2009	9,904,000	C\$0.19

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**13. Stock Options (continued)**

At December 31, 2009, 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\$0.15	9,035,000	3.69 years	C\$0.15	8,555,000	C\$0.15
C\$0.50	229,000	2.87 years	C\$0.50	229,000	C\$0.50
C\$0.51	265,000	3.36 years	C\$0.51	88,333	C\$0.51
C\$0.55	150,000	3.75 years	C\$0.55	150,000	C\$0.55
C\$0.83	225,000	3.18 years	C\$0.83	225,000	C\$0.83
	9,904,000	3.65 years	C\$0.19	9,247,333	C\$0.28

*Stock options granted*

In July 2009, the Company granted 100,000 stock options to a consultant at an exercise price of C\$0.15 for a period of five years.

In August 2009, the Company granted 100,000 stock options to a consultant at an exercise price of C\$0.15 for a period of five years.

In February 2009, the Company reduced the exercise price of 4,344,000 of its existing 5,699,000 incentive stock options with exercise prices of between C\$0.50 and C\$0.83 to C\$0.15. This repricing has been accepted by the Exchange and in November 2009 the Company's disinterested shareholders provided their approval. The expense associated with the repricing was recognized in February 2009.

The weighted average grant-date fair value of options awarded in six months ended December 31, 2009 was \$0.10. The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions:

	2010	2009
Annualized stock price volatility	110%	110%
Risk-free interest rate	2.54%	2.0%
Expected option lives	5.0 years	4.6 years
Dividend yield	0.0%	0.0%

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**14. Warrants**

	Financing Warrants		Broker Warrants	
	Warrants Outstanding	Weighted Average Exercise Price	Warrants Outstanding	Weighted Average Exercise Price
At June 30, 2009	23,889,832	C\$ 0.62	1,204,000	C\$ 0.35
Issued	-	-	-	-
Expired	(10,055,000)	C\$0.75	-	-
Exercised	-	-	-	-
At December 31, 2009	13,834,832	C\$ 0.52	1,204,000	C\$ 0.35

At December 31, 2009, warrants were outstanding enabling holders to acquire common shares as follows:

Number of Financing Warrants	Number of Broker Warrants	Exercise Price	Expiry Date
-	500,000	C\$ 0.15	May 29, 2011
6,834,832	-	C\$ 0.29	May 29, 2010
7,000,000	-	C\$ 0.75	March 14, 2010
-	704,000	C\$ 0.50	March 28, 2010
13,834,832	1,204,000		

**15. Interest Rate Swap**

On November 3, 2008, the Company entered into an interest rate swap contract covering the period to October 15, 2011. This had the effect of converting a variable interest rate loan from M&I Bank (note 10) to one with a fixed interest rate. The interest rate swap contract provides for monthly settlements from November 15, 2008 to October 15, 2011. Pursuant to the interest rate swap agreement, the Company will receive interest at the one-month LIBOR and will pay interest at a rate of 3.3%. The notional amount of the swap at December 31, 2009 is \$2. The fair value of the interest rate swap at December 31, 2009 is \$61 (June 30, 2009 - \$63).

The Company has not designated the interest rate swap contracts as a hedge in accordance with CICA Handbook Section 3865 – Hedges. Accordingly, the Company accounted for the interest rate swaps as derivative financial instruments and recorded the fair value of the interest rate swaps on its balance sheet at period-end, with realized and unrealized gains as losses from the change in fair value being recorded in the consolidated statements of operations.

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**16. Related Party Transactions**

The Company entered into the following transactions with related parties not disclosed elsewhere in these consolidated financial statements as follows:

Three months ended December 31, 2009	Director or officer fees	Consulting fees	Rent	Total
Delu International Ltd. <sup>1</sup>	\$ 33	\$ -	\$ -	\$ 33
Lee Rice <sup>2</sup>	15	-	3	18
S2 Management Inc. <sup>3</sup>	26	11	-	37
Dal Brynelsen <sup>4</sup>	4	-	-	4
Denis Brady <sup>5</sup>	4	-	-	4
Ian Slater <sup>6</sup>	4	-	-	4
Endeavour Resources Ltd <sup>7</sup>	-	5	-	5
Rafael Hernandes Correa Silva <sup>8</sup>	-	6	-	6
<b>Total</b>	<b>\$ 86</b>	<b>\$ 22</b>	<b>\$ 3</b>	<b>\$ 111</b>

Three months ended December 31, 2008	Director or officer fees	Consulting fees	Rent	Total
Delu International Ltd. <sup>1</sup>	\$ 25	\$ -	\$ -	\$ 25
Lindsey Maness, Jr. <sup>9</sup>	20	-	-	20
Lee Rice <sup>2</sup>	30	-	8	38
S2 Management Inc. <sup>3</sup>	17	11	-	28
Dal Brynelsen <sup>4</sup>	6	-	-	6
<b>Total</b>	<b>\$ 98</b>	<b>\$ 11</b>	<b>8</b>	<b>\$ 117</b>

Six months ended December 31, 2009	Director or officer fees	Consulting fees	Rent	Total
Delu International Ltd. <sup>1</sup>	\$ 70	\$ -	\$ -	\$ 70
Lee Rice <sup>2</sup>	30	-	5	35
S2 Management Inc. <sup>3</sup>	56	20	-	76
Dal Brynelsen <sup>4</sup>	9	-	-	9
Denis Brady <sup>5</sup>	9	-	-	9
Ian Slater <sup>6</sup>	9	-	-	9
Endeavour Resources Ltd <sup>7</sup>	-	11	-	11
Rafael Hernandes Correa Silva <sup>8</sup>	-	12	-	12
<b>Total</b>	<b>\$ 183</b>	<b>\$ 43</b>	<b>\$ 5</b>	<b>\$ 231</b>

Six months ended December 31, 2008	Director or officer fees	Consulting fees	Rent	Total
Delu International Ltd. <sup>1</sup>	\$ 62	\$ -	\$ -	\$ 62
Lindsey Maness, Jr. <sup>9</sup>	50	-	-	50
Lee Rice <sup>2</sup>	60	-	16	76
S2 Management Inc. <sup>3</sup>	46	11	-	57
MCSI Consulting Services Inc. <sup>10</sup>	-	19	-	19
Dal Brynelsen <sup>4</sup>	16	-	-	16
<b>Total</b>	<b>\$ 234</b>	<b>\$ 30</b>	<b>\$ 16</b>	<b>\$ 280</b>

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### 16 Related Party Transactions (continued)

- <sup>1</sup> Beneficially owned by the Company's CEO.
- <sup>2</sup> Mr. Rice is a director of the Company.
- <sup>3</sup> Beneficially owned by the Company's CFO who is a former director. Consulting fees related to a contract employee provided at cost.
- <sup>4</sup> Mr. Brynelsen is a director of the Company.
- <sup>5</sup> Mr. Brady is a director of the Company
- <sup>6</sup> Mr. Slater is a director of the Company
- <sup>7</sup> Endeavour Resources Ltd. is owned by Mr. Nathoo, who is a director of Mineração Berilo do Brasil Ltda.
- <sup>8</sup> Mr. Hernandez Correa Silva is a director of Mineração Berilo do Brasil Ltda.
- <sup>9</sup> Mr. Maness was an officer of the Company until January 31, 2009.
- <sup>10</sup> The Company's CFO holds a 50% interest.

As at December 31, 2009, \$37 (June 30, 2009 - \$37) is owing to directors and officers for services and \$28 (June 30, 2009 - \$22) is owing to officers for expenses paid on the Company's behalf.

Related party transactions were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

### 17. Supplementary Cash Flow Information

	Three months ended		Six months ended	
	December 31		December 31	
	2009	2008	2009	2008
Cash paid for interest costs	\$ 160	\$ 112	\$ 327	\$ 187
Cash paid for income taxes	-	-	-	-
Shares issued on Nonferrous acquisition	-	541	-	541
Amortization expense included in cost of sales	201	101	437	134
Debt assumed by vendors on Nonferrous acquisition	\$ -	\$ 3,000	\$ -	\$ 3,000

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### 18. Segment Reporting

Prior to May 2008, the principal activities of the Company were the acquisition, exploration and development of mineral properties. As at December 31, 2009, the Company had two reportable segments: mineral properties and manufacturing. The mineral properties segment manages the acquisition, exploration and development of beryllium natural resources and analysis of the Company's resource information database; the manufacturing segment produces beryllium copper and other specialty alloy products.

The accounting policies of the segments are the same as described in note 3 of the June 30, 2009 audited financial statements. IBC's management evaluates performance based on profit or loss from operations before other items.

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**18. Segment Reporting (continued)**

	Manufacturing		Mineral Properties		Corporate		Total
Three months ended December 31, 2009							
Sales to external customers	\$	3,744	\$	-	\$	-	\$ 3,744
Operating income (loss)		197		(44)		(401)	(248)
Amortization		311		17		3	331
Stock-based compensation		17		-		7	24
Interest expense		(100)		-		(93)	(193)
Income tax recovery (expense)		(70)		5		-	(65)
Property, plant and equipment purchases		30		-		-	30
Three months ended December 31, 2008							
Sales to external customers		3,192		-		-	3,192
Operating income (loss)		(527)		(100)		(290)	(917)
Amortization		228		17		1	246
Stock-based compensation		31		-		(4)	27
Interest income		15		-		15	30
Interest expense		(87)		-		(40)	(127)
Income tax recovery (expense)		128		346		-	474
Property, plant and equipment purchases		29		1		-	30
Six months ended December 31, 2009							
Sales to external customers		6,327		-		-	6,327
Operating income (loss)		(176)		(80)		(715)	(971)
Amortization		655		34		5	694
Stock-based compensation		33		-		34	67
Interest expense		(207)		-		(153)	(360)
Income tax recovery (expense)		(5)		11		-	6
Property, plant and equipment purchases		90		-		2	92
Six months ended December 31, 2008							
Sales to external customers		5,916		-		-	5,916
Operating income (loss)		(623)		(234)		(677)	(1,534)
Amortization		354		33		2	389
Stock-based compensation		67		-		50	117
Interest income		15		-		71	86
Interest expense		(135)		-		(40)	(175)
Income tax recovery (expense)		141		351		-	492
Property, plant and equipment purchases	\$	40	\$	1	\$	12	\$ 53

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**18. Segment Reporting (continued)**

Total assets	December 31, 2009	June 30 2009
Mineral properties	\$ 2,262	\$ 2,147
Manufacturing	14,357	14,459
Corporate	281	700
	\$ 16,900	\$ 17,306

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

Sales	Three months ended December 31, 2009	Three months ended December 31, 2008	Six months ended December 31, 2009	Six months ended December 31, 2008
North America	\$ 2,998	\$ 580	\$ 5,220	\$ 3,460
Europe	243	736	414	1,876
Asia	503	1,876	693	580
	\$ 3,744	\$ 3,192	\$ 6,327	\$ 5,916

The following customers represented more than 10% of quarterly sales:

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
Customer A	-	-	\$ 932	15.8%
Customer B	-	-	742	12.5%
Customer C	-	-	\$ 684	11.6%

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**18. Segment Reporting (continued)**

Mineral properties, property, plant and equipment and intangible assets	December 31, 2009	June 30 2009
Canada	\$ 31	\$ 35
Brazil	608	572
United States	9,415	9,900
	\$ 10,054	\$ 10,507

**19. Financial Risk Management***Fair Values*

Financial instruments classified use level 1 quoted prices in active markets including cash and cash equivalents and interest rate swaps.

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. In the past, the Company's use of derivatives was limited to specific programs to manage fluctuations in foreign exchange risk, which are subject to the oversight of the board of directors.

*Foreign Exchange Risk*

The Company operates projects in several different countries and therefore, foreign exchange risk exposures arise from transactions denominated in foreign currencies. Foreign exchange risk arises primarily with respect to the US dollar, as the majority of the Company's debt and capital expenses are denominated in US dollars. The risk is for the amount denominated in Canadian dollars since the Company treats US dollars as the functional currency.

As at December 31, 2009, with other variables unchanged, a 1% increase (decrease) in the US dollar would increase (decrease) net earnings by approximately \$2.

Exposure of the US dollar on financial instruments is as follows:

Balance at December 31, 2009	Canadian Dollars
Cash and cash equivalents	28
Receivables	35
Accounts payable	177
Balance at June 30, 2009	Canadian Dollars
Cash and cash equivalents	195
Receivables	107
Accounts payable	18

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### **19. 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. Cash and cash equivalents receive interest based on market interest rates. The Company's long-term debt has a fixed interest rate or is hedged and is not exposed to interest rate risk.

As at December 31, 2009, with other variables unchanged, a 1% increase (decrease) in the interest rate would increase (decrease) net earnings by approximately \$6.

#### *Commodity Price Risk*

The Company's profitability and long-term viability will depend, in large part, on the market price of copper and beryllium. The market prices for metals can be volatile and are affected by numerous 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 market price of these minerals and metals may not remain at current levels. In particular, an increase in worldwide supply and consequent downward pressure on prices may result over the longer term from increased copper and beryllium production from mines developed or expanded as a result of current metal price levels.

#### *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. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant.

The Company also manages its credit risk by investing only in obligations of any province of Canada, Canada or the United States of America or their respective agencies, obligations of enterprises sponsored by any of the above governments; banker's 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 other 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.

See note 10 for contractual undiscounted cash flow requirements for loans and notes payable as at December 31, 2009.

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### **20. Subsequent Events**

- a) In January 2010, the Company granted 400,000 stock options to an employee at an exercise price of C\$0.18 for a period of five years.
- b) In February 2010, the Company signed a definitive agreement (the "Agreement") to acquire Beralcast Corporation ("Beralcast"). Beralcast is a private specialty alloy manufacturing business that owns proprietary and patented technology for a castable beryllium aluminum alloy that is currently used in a wide variety of aerospace and advanced technology applications. IBC will also acquire manufacturing know-how and equipment, trade rights, marketing and supply agreements and will retain certain key personnel. The proposed acquisition is an arm's length transaction.

Under the terms of the Agreement, IBC, through its wholly owned subsidiary IBC US Holdings, Inc. ("IBC US"), will acquire all of the shares of Beralcast from two individuals. The purchase consideration is \$2,250 in cash and a number of common shares of IBC ("IB Shares") equal to C\$2,254 divided by the unit price of the financing undertaken to fund the purchase. Pursuant to the policies of the TSX Venture Exchange (the "TSXV"), the IB Shares issuable will be subject to a hold period of four months and one day from the date on which they are issued. Completion of the acquisition is subject to several conditions including IBC completing a financing of at least \$8,000 and TSXV approval. On completion of the acquisition, scheduled for March 17, 2010, IBC US will hold all of the issued and outstanding shares of Beralcast. No finder's fee is payable in connection with the acquisition. There can be no assurance that the proposed acquisition will be completed as described, or at all.

- c) In February 2010, the Company filed an amended and restated preliminary short-form prospectus with securities regulatory authorities in the provinces of British Columbia, Alberta, and Ontario in connection with a best efforts offering of units of the Company for gross proceeds of up to C\$8,500, subject to a 15% over-allotment option. The offering will be led by Union Securities Ltd. and Pope & Company Limited (collectively, the "Agents").

Each unit will consist of one common share of IBC priced at C\$0.17 and one-half of one common share purchase warrant priced at C\$0.25. Each whole warrant will entitle the holder to purchase one common share of IBC for a period of 24 months (subject to acceleration) following the date of closing of the offering. The Agents will receive a cash commission equal to 7% of the gross proceeds of the offering and broker warrants equal to 7% of the total units placed,