



IBC Advanced Alloys

**IBC ADVANCED ALLOYS CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**NINE MONTHS ENDED MARCH 31, 2011**

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*The following is a management's discussion and analysis ("MD&A") of IBC Advanced Alloys Corp. and its subsidiaries (collectively "IBC"), prepared as of May 30, 2011. This MD&A should be read together with the unaudited financial statements for the nine months ended March 31, 2011 and related notes and our audited consolidated financial statements for the year ended June 30, 2010 and related notes, which are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All financial amounts are stated in United States dollars unless otherwise indicated.*

*Certain information included in this MD&A may constitute forward-looking statements. Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.*

*Additional information related to IBC is available for view on SEDAR at [www.sedar.com](http://www.sedar.com).*

## **Our Business**

We are engaged in the development and manufacturing of advanced alloys, in particular beryllium aluminum alloys and specialty copper alloys. We are also undertaking beryllium mineral exploration and supporting research and development initiatives that will benefit beryllium consumption. Beryllium is one of the least dense of all rare metals with one of the highest melting points of all the light metals and retains its physical properties under extreme stress. It is used as a shield and moderator in nuclear reactors. It can be used in its pure form or combined with other metals to form unique alloys for essential applications for the nuclear, aerospace, medical, automotive, electronic and defense industries. Our head office is located in Vancouver, Canada.

There are three distinct aspects to our business:

- Manufacturing - We operate four plants in the United States ("US") that manufacture, heat-treat, machine or market copper-beryllium, beryllium-aluminum, copper-based master alloys and similar specialty alloy products. Our manufacturing operations employ 81 people.
- Research – We are working on research initiatives with the goal of increasing demand for beryllium-related products. Our principal research initiative is in conjunction with Purdue University ("Purdue") and Texas A&M University to develop an enhanced nuclear fuel. This fuel is intended to operate in today's reactors but with a longer fuel life and a higher safety margin. We do not have any employees directly engaged in research.
- Mineral exploration - We own beryllium mineral properties in Utah and Colorado in the US. All of our mineral properties are either formerly operating mines or are adjacent to sites that are mines. We employ one person to manage our exploration program.

We were incorporated under the laws of British Columbia and on November 23, 2007, operating as Janina Resources Limited, we completed a business amalgamation with Horn Rare Metals Ltd. We changed our name from Janina Resources Limited to International Beryllium Corporation. In March 2009 we again changed our company name to "IBC Advanced Alloys Corp." to reflect our focus on producing advanced alloys as part of our strategy of becoming a vertically integrated specialty alloy producer. Our common shares are listed on the TSX Venture Exchange (the "Exchange") under the symbol "IB".

## Corporate Developments

- In our third fiscal quarter ended March 31, 2011, we generated sales of \$5,270,000, up 31% over the comparative period in 2010. Our results of operations are discussed in further detail below.
- In April 2011, we signed collaborative research agreements with both Purdue and Texas Engineering Experiment Station ("TEES"), a member institution of the Texas A&M University System, to further advance the beryllium oxide nuclear fuels R&D project.
- In March 2011, we signed a development and technical services agreement with the US Military's Army Research Laboratory to evaluate Beralcast<sup>®</sup> beryllium-aluminum alloys suitable for components and substructures for commercial scale manufacturing opportunities and other R&D endeavours.
- In February 2011, we signed a memorandum of understanding with Global Nuclear Fuel America ("GNF-A") to improve the efficiency of nuclear fuel by adding beryllium oxide. GNF-A is a joint venture between GE (NYSE:GE), Hitachi Ltd. and Toshiba Corporation.
- In January 2011, we completed the current phase of our beryllium oxide nuclear fuels research and development project with Purdue and TEES. Prior to completing this phase of research, in September 2010, Purdue filed provisional patents covering IBC-funded current nuclear fuel research and new discoveries. See "*Research Initiatives*" below.

## Manufacturing Operations

We currently have four manufacturing operations in the United States that employ 81 people.

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Plant Location	Building Area		Leased/ Owned
	m <sup>2</sup>	sq ft	
Franklin, IN	4,800	48,800	Owned
Royersford, PA	1,500	16,000	Leased
New Madrid, MO	2,500	26,500	Owned
Wilmington, MA	5,800	63,000	Leased

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Our products are broadly divided into copper alloys and engineered materials.

### *COPPER ALLOYS*

We manufacture and distribute a wide variety of copper alloys as castings and forgings: beryllium copper, chrome copper and aluminum bronze in plate, block, bar, rings and specialty copper alloy forgings for plastic mold tooling and resistance welding parts. We sell directly to end users and serve some markets through a network of established dealers and distributors. Our copper alloys operations are based in Franklin, Indiana, where we maintain a forging (hammer, press and ring rolling), heat-treating and machining operation. We cast billets at plants in Royersford, Pennsylvania and New Madrid, Missouri. Our Franklin plant sits on 4.8 hectares (12.0 acres) of land that has considerable room for expansion.

We source copper alloys in cast billet, slab or ingot from mills in North America, Europe and Asia and convert these into usable industrial products serving the industrial welding, oil and gas, plastic mold, metal melting, marine defense, electronic and industrial equipment markets. We

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also provide tooling components for the North American automotive industry, the European and North American consumer plastic tooling producers, the global oil and gas service industry, the prime North American submarine and aircraft carrier producers and repair facilities including the US Navy, electronics industries and general equipment manufacturers. We produce material at two IBC-owned mills and buy other billet from independent third-party mills.

We have expertise in melting and casting beryllium copper and other beryllium containing alloys. Our casting operations are a primary producer-supplier of beryllium copper casting and master alloy ingot products in North America and markets around the world. Our copper alloys operations also manufacture beryllium nickel and low-beryllium-content beryllium-aluminum alloys. We offer our customers a full range of manufacturing and support services including casting and master alloy products, cast and forged billet products, semi-continuous cast input billets and wrought products. We manufacture our beryllium alloys utilizing either pure metallic beryllium or certified beryllium copper master alloy.

Our Royersford facility has three furnaces that have been adapted to meet the specialized requirements of beryllium alloy manufacturing. We have strong technical and manufacturing engineering resources in the highly specialized beryllium and beryllium containing alloy industry, which have allowed us to develop and integrate proprietary direct chill VLT (very low turbulence) semi-continuous casting technology into a highly autonomous billet manufacturing cell. This effort has resulted in the capability to manufacture large 21-inch diameter beryllium copper input billets weighing up to two tonnes. These large-scale as-cast billets exhibit consistently fine-grained, uniform micro-structures coupled with high purity, low carbide chemical compositions.

During fiscal 2010 we experienced ongoing operational difficulties at our Royersford plant. During the first nine months of fiscal 2011, we undertook a reorganization of the plant's operations including revised production processes, new equipment, employee training and integrating its operations more closely with those of our Franklin plant. The president of our Franklin plant is now president of our entire copper alloys operations including the Royersford plant. These changes have already generated improved performance.

We conduct regular internal periodic health screenings and, as consequence, have identified an unacceptable condition in certain employees due to exposure to one of the elements used in the production of one of our alloys. As a result, five employees cannot work at their usual foundry jobs until a positive health screening allows them to return to their regular production assignments. We have coordinated our resources to resume production of that alloy but we will incur additional costs as a consequence of the reassignments. While we cannot quantify these costs with certainty, we estimate that they lie between \$10,000 and \$30,000 per month. These employees have returned to work but cannot work on the specific alloy. As a result, we will not be able to achieve full production until these employees are cleared to work on all alloys.

During the nine months ended March 31, 2011, we determined that certain refractory waste could not be disposed of in a landfill since it contains unacceptable metal levels. We subsequently disposed of this waste in an environmental appropriate manner at a cost of approximately \$63,000 but have identified other site clean up to be performed and accrued \$200,000 at March 31, 2011 to cover the cost of this work including disposal of the refractory waste.

Our New Madrid plant is located on a 2.4-hectare (6.0 acres) site approximately 250 kilometres south of St. Louis, Missouri. It has two furnaces and is capable of producing billets in a range of sizes and compositions. We are planning to upgrade this facility to make it suitable for beryllium alloy production. There is room for significant expansion of plant operations at this location.

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*ENGINEERED MATERIALS*

Our engineered materials operations manufacture the Beralcast® family of metal matrices that can be used in virtually any commercial and military application requiring complex, lightweight, or high-stiffness parts. The manufacturing process is different from that employed for our copper alloys and we recently completed construction of a new manufacturing facility optimized for Beralcast® alloys. Following equipment testing, the plant commenced production in May 2011. Due to the plant relocation, our engineered materials operations did not produce anything from the end of March to late May 2011.

In April 2011, we signed an exclusive supply contract to provide investment-cast engineered components to a global leader in the design and manufacture of high-technology assembly equipment. The customer is a highly regarded industry pioneer that has provided customers with market leading solutions and process technology expertise for decades.

Beralcast® alloys serve as a higher-performance or lower-cost replacement materials for cast aluminum, magnesium, titanium, metal matrix composites, non-metallic composites, and pure beryllium or powder metallurgy beryllium-aluminum. Some of the varied applications include disk drive armatures, automotive braking and structural components and aerospace and satellite system components.

The principal Beralcast® metal matrix is more than three times stiffer than aluminum with 22% less weight and can be precision-cast to simple and complex configurations. This material is very lightweight with a high modulus of elasticity and can be precision cast for three-dimensional stability. Beralcast® is ideally suited for certain demanding semiconductor manufacturing equipment, computer components and other commercial and aerospace applications and allows for a near-net shape to be cast for maximum manufacturing efficiencies.

Binary beryllium-aluminum composites were developed by a US corporation, which was originally a metallurgical laboratory affiliated with the Massachusetts Institute of Technology, in cooperation with Lockheed Martin. We own the intellectual property relating to the more advanced development of this technology, which is a proprietary and patented castable metal matrix composite beryllium aluminum alloy now manufactured as Beralcast® which no one, to the best of our knowledge and inquiry, has been able to duplicate commercially.

*ULBA METALLURGICAL PLANT*

We are dependent on Ulba Metallurgical Plant ("Ulba") for our supply of vacuum-cast beryllium and beryllium copper master alloy. Ulba operates a beryllium processing and manufacturing facility and is owned by Kazatomprom, the national atomic company of Kazakhstan. We can, however, also source beryllium from the US National Defense Stockpile and a third-party business from time to time.

In March 2010, we signed long-term beryllium supply agreements for beryllium, as well as beryllium copper master alloy, with Ulba. Under the terms of the agreements, Ulba and IBC have committed to (1) multiple-year supply commitments for beryllium metal and beryllium copper master alloys, (2) explore strategic partnerships, which may include direct or indirect investment that will support the growth of the beryllium business for the benefit of both parties, and (3) assess the feasibility of a Kazakhstan-based high volume beryllium oxide production facility to support our growing nuclear fuels initiatives. We previously signed a letter of intent with Kazatomprom in November 2009.

For several months, we were unable to complete purchases of vacuum-cast beryllium from Ulba due to delays in securing export licences but have now reestablished shipments.

*OPERATING PERFORMANCE AND OUTLOOK*

Revenues for the third quarter of fiscal 2011 increased relative to both the second quarter and comparative periods due primarily to the contribution from our engineered materials operations acquired in March 2010. Our order intake and backlog has remained steady into the fourth fiscal quarter, but revenues will likely decrease in the fourth quarter as our engineered materials operations were closed for most of April and May while we moved the factory.

The US and Canada currently account for about 75% of our sales and we are working on expanding the proportion of sales outside the US by improving our distribution network. The recent weakness of the US dollar has improved our competitiveness in foreign markets.

With the purchase of our engineered materials operations in 2010, we have been able to increase our sales and cash flow from operations. We do not, however, expect that these operations will have a significant effect on earnings in the current fiscal year, as amortization charges are significant.

Approximately 75% of our revenues are derived from copper alloys. The price of copper has, until very recently, increased since the depth of the recent recession. Since we pass the cost of copper through to our customers, our profitability is not, in the long term, affected by the price of copper except to the extent that high copper prices discourage consumption. In the short term, price fluctuations can have a bearing on our profitability, but the effect is unlikely to be material unless the price movements are very marked.

**Research Initiatives**

We are sponsoring and assisting in research initiatives with a view to increasing demand for beryllium and beryllium oxide. We are currently focused on enhanced nuclear fuels but are also pursuing wind turbine and hydrogen fuel storage applications for beryllium-containing materials.

*NUCLEAR FUELS*

In August 2008, we signed a collaborative research agreement with Purdue to advance the university's existing nuclear fuels research program and to develop a new type of beryllium oxide ("BeO") nuclear fuel that is longer lasting, more efficient and safer than current nuclear fuels. We plan to seek joint venture opportunities to further advance the research to develop, for commercial use, an enhanced uranium oxide - beryllium oxide (UO<sub>2</sub> – BeO) nuclear fuel suitable for both existing and future nuclear power reactors.

In April 2011, we signed collaborative research agreements with both Purdue and TEES to further advance the BeO nuclear fuels project. The April 2011 agreements supersede the previous agreement entered into with Purdue in August 2008.

*Previous Work*

Previous work by Purdue nuclear engineers showed that an advanced UO<sub>2</sub> – BeO nuclear fuel could potentially save billions of dollars annually by lasting longer and burning more efficiently than conventional nuclear fuels while at the same time dramatically impacting the demand for beryllium and beryllium oxide. In addition to the cost savings, an advanced UO<sub>2</sub> – BeO nuclear fuel could also contribute significantly to the operational safety of both current and future nuclear reactors due to its superior thermal conductivity and associated decrease in risks of overheating or meltdown.

Purdue led the early research into UO<sub>2</sub> – BeO fuel, which is intended to solve the inherent problem of low thermal conductivity of existing UO<sub>2</sub> fuel. The low thermal conductivity leads to a large temperature gradient across the fuel pellet, which limits the operational performance of

nuclear reactors due to thermal stresses that cause pellet cladding interaction and the release of fission product gases. An enhanced thermal conductivity  $UO_2 - BeO$  fuel would decrease maximum fuel temperatures and facilitate a reduction in pellet cladding interaction through lessening thermal stresses that result in fuel cracking, relocation and swelling. Additionally, fission gas release would decrease allowing for higher fuel burn-up and reactor safety would be greatly improved with a faster thermal response and less stored energy in the fuel pins. We have been advised by the Purdue professor emeritus who is guiding the research that if  $UO_2 - BeO$  nuclear materials are feasible, they would function in existing, unmodified nuclear reactors.

#### *IBC-Sponsored Research*

Under the terms of the agreements, IBC has an option to enter into an exclusive royalty-bearing license for commercial application to the intellectual property relating to the development of an advanced BeO nuclear fuel (the "IP") with both Purdue and Texas A&M universities. Also pursuant to the agreements, the R&D phase will not exceed 24-months with a budget to be paid by us on a quarterly installment basis.

Based on work undertaken in our 2008-2010 research agreement, Purdue filed provisional patents covering the IBC-funded nuclear fuel research, specifically, the fields of invention and technical fields being patented under the provisional filings are the design of enhanced high thermal conductivity nuclear fuel made of uranium oxide with the addition of a compatible high thermal conductivity material such as beryllium oxide using controlled microstructures in the product.

In January 2011, we received reports on the 2008-2010 phase of research and initial testing. These reports concluded that  $UO_2 - BeO$  fuel is longer lasting, more efficient and provides a larger safety margin than current nuclear fuels. The initial testing included nuclear engineering simulations and thermal modelling which successfully demonstrated the potential benefits of this fuel in light water reactor systems. The experimental and computational work carried out to date provides a solid understanding of unirradiated  $UO_2 - BeO$  behaviour and a clear path for additional work. Preliminary processing methods have been experimentally demonstrated to produce materials for validation measurements; this work will continue in the next phase along with an expanded research mandate to further validate the technology and complement the work to date. We are developing a work plan and the cost of the next phase of research.

The next phase of the R&D will involve mechanistic modeling, normal and transient modeling with Nuclear Regulatory Commission thermal-hydraulics, fuel performance and severe accident codes and experimental validation of thermal models. The project tasks will be performed between Purdue and TEES and will include neutronic analysis and BeO fuel development and characterization. At the conclusion of this phase it is anticipated that an industrial assembly of the BeO enhanced fuel will be approved for irradiation in a test reactor.

#### *Fuel Fabricator Partnership*

In February 2011, we signed a memorandum of understanding ("MOU") with Global Nuclear Fuel America ("GNF-A") to improve the efficiency of nuclear fuel by adding beryllium oxide. GNF is a joint venture between GE (NYSE:GE), Hitachi Ltd. and Toshiba Corporation. This is a critical development as it demonstrates interest by a leading fuel fabricator. Since we do not have fuel fabrication experience, it will be necessary for us to partner with a fuel fabricator in order to exploit the technology in development. Under the terms of the MOU, the parties have agreed to jointly complete an industry study on the application of the beryllium oxide technology to boiling water reactor ("BWR") fuel. The MOU calls for GNF to assist in study completion by applying the advanced oxide process to uranium fuel pellets produced by GNF's Wilmington fuel fabrication

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plant. Central to the project will be the IBC-sponsored patent pending technology for the use of BeO to improve the thermal conductivity of BWR fuel.

*Nuclear Fuels Management and Advisory Board*

James Malone is our vice president of nuclear fuels. He is former vice president of nuclear fuels for Exelon, a wholly owned subsidiary of Exelon Corp., and has more than 40 years of experience in the nuclear power industry, focused on the technical, economic and planning aspects of nuclear fuels. At Exelon, he was responsible for their nuclear fuel cycle activities, including procurement, safeguards, economics, and fuel cycle cost. Exelon operates the largest nuclear reactor fleet in the US and the third largest fleet in the world. Mr. Malone is also the board chairman of Hathor Exploration Ltd., a uranium exploration and development company.

As IBC's vice president of nuclear fuels, Mr. Malone's mandate is to foster and manage relationships with potential industry partners and government agencies to collaborate with us on our strategic initiative to develop a more efficient, safer and economically sound beryllium oxide enhanced nuclear fuel. Mr. Malone was previously appointed to IBC's nuclear fuels advisory board in August 2009 and he devotes approximately 25% of his time to IBC activities.

We have a nuclear fuels research advisory board to assist in developing and implementing a long-term strategic plan to commercialize the nuclear fuel technology currently being developed by Purdue and Texas A&M universities in partnership with IBC. Our nuclear fuels advisory board comprises:

- Dr. Alvin Solomon is a professor emeritus of nuclear engineering at Purdue and holds a PhD in materials science from Stanford University.
- Joel Gingold is an independent nuclear fuels consultant who retired as vice president and general manager of Stoller Nuclear Fuel Division of NAC International in 2005 where he performed a variety of assignments in nuclear fuel fabrication and fuel performance for utilities, industry associations, government agencies, consulting firms and other organizations.

*WIND TURBINES*

We have teamed with Sentech, Inc., a Washington DC-based clean energy consulting company to explore the development and commercial application of beryllium and BeO in the growing wind energy and wind turbine market. There have not been any recent developments in this initiative.

*HYDROGEN FUEL STORAGE*

We entered into a six-month arrangement with Hydrogen Link, a materials research company focused on hydrogen storage, fuel cell and complementary technologies. Under the terms of the agreement, which expired December 31, 2010, we collaboratively completed an industry study on solid-state hydrogen storage cells and related applications. We are now working to identify potential industry partners and reviewing the feasibility of commercializing beryllium-based hydrogen storage with a view to forming a joint venture to improve and expand on lithium beryllium metal hydride technologies, although there have not been any recent developments in this regard.

**Mineral Exploration**

We are seeking to acquire and explore mineral properties that could serve as a source of raw materials for future production. We own a comprehensive reference library detailing beryllium

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mines, deposits and occurrences worldwide, which is complemented by extensive geologic, topographic and bathymetric databases and a comprehensive library of satellite imagery.

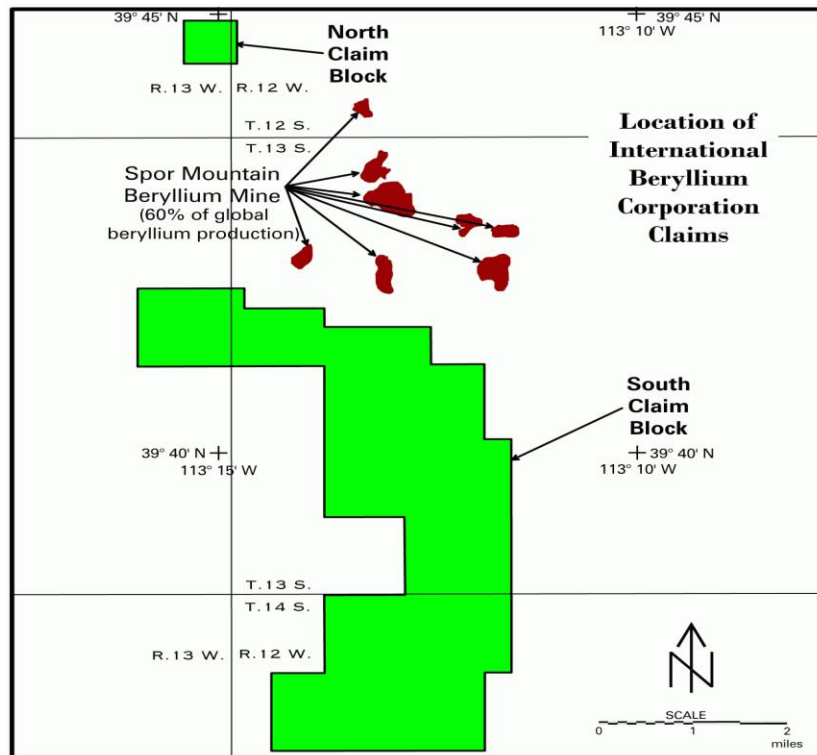
We plan to undertake exploration in several phases and expect to undertake most of our exploration work at our Spor Mountain property. Total exploration expenditures in the nine months ended March 31, 2011 were \$129,000.

Only two beryllium minerals are of commercial importance for the production of beryllium. Bertrandite is the principal beryllium mineral mined in the United States. Beryl (from pegmatite) is the principal beryllium mineral mined in the rest of the world. Following an evaluation of our United States mineral properties, we have decided not to pursue exploration on our Brazilian properties. We wrote off the value of the Brazilian properties in the year ended June 30, 2010 but we have continued to maintain these properties as we believe they have merit.

*SPOR MOUNTAIN, JUAB COUNTY, UTAH*

*Property Description and Location*

We own 371 mineral claims near Spor Mountain in Juab County, Utah, USA. The 371 claims comprise approximately 7,665 acres (3,102 hectares) proximal to another company's existing beryllium mining operations at Spor Mountain. The property is situated in a very sparsely populated part of Juab County. It is readily accessible along a paved road system but has limited availability of electricity.



*Previous History*

This property is situated in an area of known beryllium mineralization described in US Geological Survey ("USGS") Professional Paper 415. Studies conducted by the USGS and by the US Bureau of Mines in the 1950s confirmed the occurrence of beryllium minerals throughout the

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area and documented the extent and grades of some of the beryllium deposits in this area and their chemical, mineralogical, and physical characteristics.

*Exploration*

Our Utah mineral claims about the mineral property of Materion Corporation (formerly Brush Engineered Materials, Inc.) ("Materion") at Spor Mountain. Materion operates five open pit mines in this location and reports that it produced 56,000 tons of bertrandite ore in 2010 grading 0.34% beryllium. This constituted approximately 60% of world beryllium production, but Materion has not been in full production and lack of additional exploration has led to declining reserves over the last several years.

The beryllium deposits discovered at Spor Mountain in December 1959 have been the major source of this metal in the western world for more than 40 years. The beryllium mineralization at this location occurs in tabular deposits situated along major faults and fractures in an altered water-laid rhyolitic tuff within a valley that once was part of paleo-Lake Bonneville. Our claims are located on extensions of these geologic structures initially described by USGS geologists and are presently being mined on Materion's properties.

Our analysis of topographic data and high-resolution aerial photography of the area has revealed the presence of a previously unmapped extinct volcanic caldera that may prove to be the source of structural control, hydrothermal fluids, and beryllium mineralization in this area. The presence of this caldera poses the possibility of more extensive beryllium mineralization on our claims than has been encountered at the Materion mine site.

In September 2010, Fugro Airborne Surveys Corp. ("Fugro") completed the airborne geophysical data collection portion of its contract to survey our beryllium claims and surrounding areas in Juab County. The survey area covered 72,380 hectares (178,850 acres) in 271 flight lines totalling 7,495 line kilometres (4,657 line miles) of total magnetic intensity and 256-channel radiometric data recording. Flights were carried out at an average height above terrain of 157 metres (515 feet). Fugro recorded a total of 1,060,172 total magnetic intensity readings and compiled 106,262 sets of 256-channel gamma ray energies.

Our analysis of the geophysical survey data revealed several extensive northeast-trending fracture zones that previously had not been identified or mapped because of the volcanic tuffs that blanket the prospect area. In particular, the completed data analysis identified several high interest target zones ("TZ") that will be the subject of additional work to quantify our upstream resource base. We are developing and deciding on a 2011 work plan that may include drill testing, and other work, on these high priority targets.

Results of the radiometric survey showed a mantle of outwash material from Starvation Canyon that is otherwise indistinguishable from the volcanic tuffs of the Fish Springs Valley but covers the beryllium bearing tuffs on the southwest flank of Spor Mountain for a width of 600 metres to as much as 2,300 metres, averaging about 1,600 metres. This cover material prevents geochemical sampling and shallow drilling from revealing beryllium content in the underlying tuffs and appears to truncate the previously mined deposits on Spor Mountain.

*Plan*

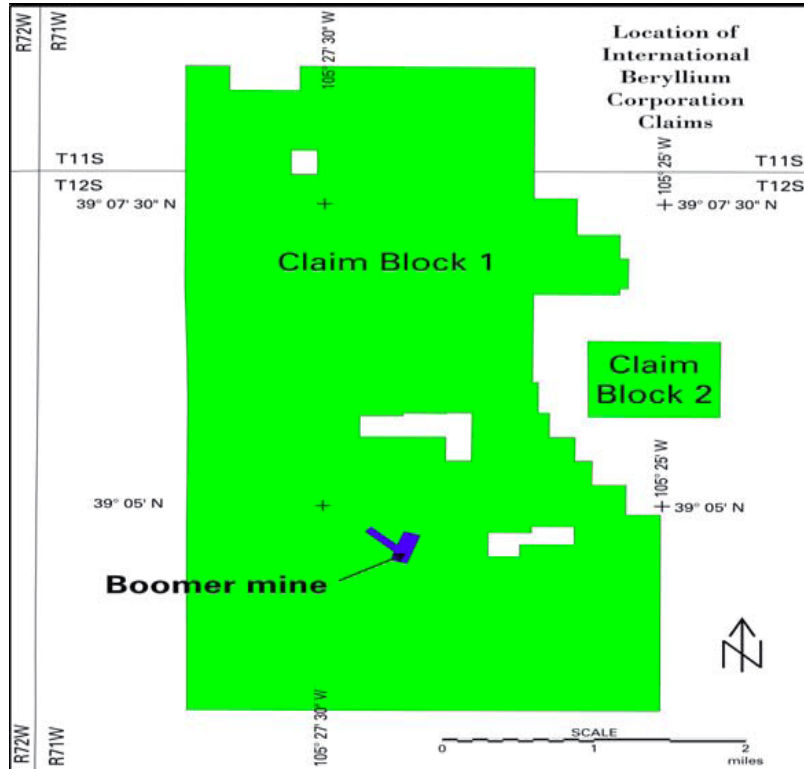
The magnetic intensity data clearly revealed four through-going northeast-trending fracture zones extending from the previously mined areas on Spor Mountain to the southwest into IBC's claim block. These fracture zones may have been the source as well as the locus of the ore deposits on Spor Mountain. The intercept lengths of these fracture zones on IBC's claims are 930 metres, 1,740 metres, 3,550 metres, and 6,420 metres and constitute the target areas for a 30- to 50-hole drilling campaign to evaluate the beryllium resource during the 2011 field season.

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*LAKE GEORGE, PARK COUNTY, COLORADO*

We also own a 100% interest in the Boomer mine located in the Lake George beryllium district, a well-known area of beryllium mineralization in Park County, Colorado, USA. The property is comprised of two patented mining claims: (1) the Boomer lode and (2) the East Boomer lode constituting 20.560 acres (8.320 hectares) of land and an undivided one-third interest in the adjacent JS lode, a 9.395-acre (3.802 hectares) patented mining claim. We also own 434 mining claims (approximately 8,967 acres or 3,629 hectares) on adjacent lands that increase our Colorado interests in the Lake George district.



*Property Description and Location*

The Boomer mine is situated in Section 21 of Township 11 South, Range 72 West (T11S, R72W). It lies within the Lake George beryllium area, a prolific beryllium-producing area of South Park, Park County, Colorado. It is well supplied with electricity, water and telephone, and is readily accessible along an established road system.

*Previous History*

The Boomer mine was historically the second largest producing beryllium mine in the United States from 1948 until 1963 and was the largest beryllium ore producer in 1958. Mining operations were discontinued in the early 1970s due to a legal dispute between the operating partners and there has been no recent exploration activity on the property.

USGS scientists, Dr. Wallace R. Griffiths and Dr. Charles C. Hawley, evaluated the Boomer mine in the 1960s for publication of USGS Professional Paper 608-A and 608-B and USGS Circular 597. They were of the opinion that the Boomer mine retained more than 50% of its mineable reserves. Ore reserves will have to be confirmed by systematic drilling, geochemical

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sampling, and by geophysical and geological evaluations. We can confirm that the previous reserves are now a historical resource.

*Exploration*

We hold 434 mineral claims in two claim blocks in the Lake George district, which includes the Boomer mine. The staked area is approximately 8,967 acres (3,629 hectares) and includes the former beryllium producing areas of Badger Flats, China Wall, Redskin Gulch, and numerous former producing claims and workings.

*Plan*

Our future plans include analyzing historical data with the objective of undertaking further geochemical, geophysical, and field geological investigations to identify and delineate any additional ore zones that may be suitable for mining. Once this initial work is complete, we plan to incorporate our findings into a thorough resource estimate for the entire Lake George area.

**Financial**

*SELECTED QUARTERLY INFORMATION*

During our most recent eight quarters, we have not incurred any loss from discontinued operations or extraordinary items.

Quarter Ended	Revenue	Loss for the period	Basic and diluted loss per share
	\$000	\$000	\$
June 30, 2009	2,610	(5,395)	(0.05)
September 30, 2009	2,583	(800)	(0.01)
December 31, 2009	3,744	(479)	(0.00)
March 31, 2010	4,034	(797)	(0.01)
June 30, 2010	4,571	(2,040)	(0.01)
September 30, 2010	5,656	(673)	(0.00)
December 31, 2010	4,423	(735)	(0.00)
March 31, 2011	5,270	(883)	(0.00)

Our loss for the quarter ended June 30, 2009 included a \$4,339,000 goodwill impairment provision and was adversely affected by the weak economy. Our loss for subsequent quarters got better as the improving economy benefited our operating results. Period-to-period variations in earnings were primarily due to production issues at our operating facilities. Our loss for the quarter ended June 30, 2010 was adversely affected by operating problems at our Royersford plant, which we subsequently addressed, and by mineral property impairments totalling \$718,000. Sales improved following our acquisition of Beralcast<sup>®</sup> Corporation (which now forms the basis of our engineered materials operations).

Our loss for the quarter ended September 30, 2010 significantly decreased compared to the prior period's loss, which included impairment costs and expenses associated with the year-end audit. Our operating results improved at our manufacturing operations in the first quarter, which has helped offset any losses. Our loss for the quarter ended December 31, 2010 increased slightly with expenses relating to improvements at our manufacturing operations; however. Our

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loss for the quarter ended March 31, 2011 further increased due to a combination of lower gross margins and increased manufacturing overhead associated with specific issues discussed below.

*RESULTS OF OPERATIONS*

We incurred a loss of \$883,000 for the three months ended March 31, 2011 compared to a loss of \$797,000 in the comparative 2010 period and a loss of \$735,000 for the quarter ended December 31, 2010. The most significant factor affecting our operating performance was that revenues have increased 31% from the comparative period, due to the acquisition of our engineered materials operations.

Our net loss for the nine months ended March 31, 2011 was \$2,311,000 compared to a loss of \$2,009,000 for the nine months ended March 31, 2010. The improvement in our nine-month operating performance was due to the same factors that influenced our quarterly operating results.

Our loss before other items ("operating loss") for the nine months ended March 31, 2011 was \$1,989,000 compared to an operating loss of \$1,431,000 in the comparative 2010 period. As a result of increased sales and better plant operations, our gross profit improved significantly. The full benefit of the higher gross profit is not reflected in the operating loss because we have continued to invest in growth, particularly:

- increased in-house business development activities including staff and travel to prospective customers and trade shows;
- business development and investor communications consultants; and
- additional overhead resulting from the purchase of our engineered materials operations in March 2010.

We have also incurred additional costs relating to the relocation of our engineered materials operations to a new plant, expenses associated with travel and consulting and professional fees to secure export licenses for beryllium and clean-up costs at our Royersford facility.

The following table provides details of our loss before other items. Corporate expenses are those not allocated to specific operating segments, including research costs. This table shows the segments as they are reported to management.

\$000	Three months ended March 31		Nine months ended March 31	
	2011	2010	2011	2010
<i>Segment revenues</i>				
Manufacturing	5,270	4,034	15,349	10,361
Mineral properties	-	-	-	-
Total revenues	5,270	4,034	15,349	10,361
<i>Segment operating loss</i>				
Manufacturing	(101)	(25)	(124)	(201)
Mineral properties	(69)	(41)	(199)	(120)
Research	(20)	(79)	(115)	(239)
Corporate	(614)	(315)	(1,551)	(871)
Loss before other items	(804)	(460)	(1,989)	(1,431)

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A discussion about the significant components of the segment operating loss and net loss follows. Additional information regarding segment results of operations and cash flow can be found in note 21 of our financial statements for the nine months ended March 31, 2011.

*Manufacturing*

- The manufacturing segment income relates to revenues and expenses of our manufacturing plants. Current period sales reflect additional shipments of Beralcast<sup>®</sup> in advance of relocating the factory (which took place in April and early May 2011, as discussed elsewhere).
- Our gross profit was determined as follows:

\$000	Three Months Ended		Nine Months Ended	
	March		March	
	2011	2010	2011	2010
Sales	5,270	4,034	15,349	10,361
Cost of sales				
Materials	2,296	2,166	6,702	4,907
Labour	820	567	2,358	1,560
Overhead	963	635	2,562	1,715
Amortization	287	253	850	663
Change in finished goods	43	(245)	51	(194)
Total cost of sales	4,409	3,376	12,523	8,651
Gross profit	861	658	2,826	1,710

- Our gross profit margins in the current quarter and year to date have continued to be adversely affected by operating problems at our Royersford facility. While we have improved operations considerably, the need to medically remove certain employees for several weeks has resulted in additional costs.
- Manufacturing-related salaries and wages increased over the prior year due to additional sales and administrative staff for our copper alloys operations and incremental salaries associated with our new engineered materials operations. In addition, salaries and wages include \$117,000 of severance costs in the current year to date.
- Expenses for the period include approximately \$190,000 in consulting fees, salaries and travel costs in support of several business development initiatives. We are beginning to see incremental sales from these initiatives. Expenses also include a \$200,000 provision for cleanup of our Royersford facility, as discussed elsewhere in this MD&A.
- The operating income before interest, income taxes and amortization was \$330,000 in the current quarter compared to an income of \$362,000 in the comparative period. The principal reason for the decline was the ongoing operational problems and the accrual of site remedial costs for our Royersford plant.

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*Mineral Properties*

- The mineral properties loss relates to the cost of maintaining our Denver office where our staff and contractors plan and manage our mineral exploration activities. We capitalize the direct costs of finding, maintaining and exploring our mineral properties. Our expenditures on mineral property administration have increased in the last year as we plan further exploration work and wind down our Brazilian operations. We may further increase expenditures on supporting exploration activities as we continue our exploration program on the Spor Mountain property.

*Research*

- Research primarily relates to our nuclear fuel research agreement with Purdue under which we made quarterly payments of \$76,000 up until June 2010 and the direct costs of administering our research initiative.

*Corporate*

- The corporate loss relates to expenses incurred to manage the overall group, including senior management, fundraising initiatives, business development activities, public company costs and any expenses not directly related to manufacturing or mineral exploration.
- Consulting fees consist of payments made for general corporate consulting and advice, market assessment and industry research and non-audit or accounting services. We incurred financial advisory fees of \$48,000 earlier the current fiscal period. We are also undertaking governmental relations initiatives at the corporate level that we hope will ultimately benefit our manufacturing operations.
- Investor relations expense largely comprises consulting fees paid to communicate information about us to current and prospective investors. We have advanced our business plan in the last year and, accordingly, have incurred higher expenses to communicate these developments. Salaries, wages, and management fees include the cost of company personnel other than the cost of manufacturing employees included in the cost of sales. Salaries and management fees increased in the current period as a result of the purchase of our engineered materials operations, hiring sales and marketing personnel and unfavourable exchange rate changes on Canadian dollar compensation.
- Professional fees comprise audit, legal and valuation fees, other than legal fees incurred to acquire properties or for financings, which are capitalized. Current period fees increased over the prior year primarily due to legal fees in connection with defending litigation, reaching agreement with Customers Bank regarding our loan obligations and representing us on import and export license issues. We settled one piece of litigation in the second fiscal quarter and another legal action in the third quarter. We expect that professional fees will return to historical levels in future periods.
- Travel costs increased as a result of business development initiatives, ongoing efforts to form alliances with industry partners and resolving export license issues.

*Other Income (Expense)*

- Our manufacturing operations incurred interest expense primarily on line of credit and term loan facilities. Further particulars of our interest charges can be found in notes 11 and 13 of our financial statements.

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*Income Taxes*

- In spite of our operating losses, we incurred some current income tax expense. The future income tax recovery relates to timing differences on long-term assets but will not result in a positive cash flow.

*LIQUIDITY AND CAPITAL RESOURCES*

At March 31, 2011, we had a working capital deficiency of \$1,574,000 including cash and equivalents of \$2,207,000, as compared to working capital of \$5,902,000 at June 30, 2010. The decline in working capital has been adversely affected by certain term debt becoming current in the period as discussed below. Factors affecting our liquidity include:

- Our manufacturing operations generate enough cash to independently support their operations. The main limitation on our cash position is the cost of maintaining our corporate office and funding exploration and research and other development initiatives. Related to this are restrictions imposed by our banks that currently prevent us from transferring funds from our manufacturing operations to our head office. Consequently, at present, our corporate office, research and development and mineral property exploration activities are entirely dependent on our ability to raise equity funds.
- Our manufacturing subsidiaries have entered into bank loan agreements that require that they maintain a specified debt coverage ratio, debt to equity ratio and minimum tangible net worth. Failure to conform to these covenants could result in the subsidiaries' banks demanding immediate repayment of the loans. Customers Bank, which lends to our Royersford operations, demanded repayment of its loans. In March 2011, we entered into a forbearance agreement that resulted in accelerated loan payments and an obligation to repay all debts to Customers Bank by June 30, 2012, but the obligation to immediately repay our bank loans was withdrawn.
- On October 31, 2011, the \$3,000,000 debt relating to the purchase of Nonferrous will mature. We will have to renegotiate or refinance this debt.
- Certain of our term debt due to M&I bank is due October 15, 2011. We intend to refinance this debt with M&I Bank but have not yet done so.
- We have relocated our engineered materials operations and, as of the date of this MD&A, we expect to spend a further \$380,000 on the new facility.
- Resource prices, particularly for copper, have a bearing on our manufacturing costs and selling prices, as copper is a large component of most of our products.
- The improvement in the economy that we are experiencing could result in increased working capital required as inventory and receivables increase.
- We subcontract certain manufacturing processes to suppliers. Any delays in the suppliers performing their work can result in us carrying more inventory than is desirable and slow cash collections.

We may be able to generate additional cash by taking advantage of unused lines of credit. We have sufficient funds to support our corporate operations until August 2011 and accordingly need to raise additional funds to complete our business plan. There can be no assurance that we will be successful in obtaining such funds.

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*RELATED PARTY TRANSACTIONS*

*Transactions*

Particulars of our transactions with related parties are disclosed in note 18 to our March 31, 2011 financial statements. We do not have any contractual relationships with other directors or officers except that in February 2010, we renewed a premises lease with a company in which Lee Rice, one of our directors, holds an interest. The term of the lease was for one year, commencing expiring on January 31, 2011. We are currently leasing this office on a month-to-month basis.

*FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS*

Our activities expose us to a variety of financial risks, including foreign exchange risk, interest rate risk, commodity price risk, credit risk and liquidity risk. We use an interest rate swap (see note 17 of our March 31, 2011 financial statements) to manage interest rate risk but we do not use foreign exchange contracts or commodity price contracts. We do not have a practice of trading derivatives. We attempt to employ a natural hedge for foreign currency by holding funds in the currency in which we expect to spend the monies.

We provide further particulars of risks associated with financial instruments in note 22 of our March 31, 2011 financial statements.

*CHANGES IN ACCOUNTING POLICIES*

We are subject to new or amended accounting standards including the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1000 "General Accounting"; Section 1582 "Business Combinations", Section 1601 "Consolidations", Section 1602 "Non-controlling interests"; Section 3064 "Goodwill and Intangible Assets" and Section 3682 "Financial Instruments – Disclosures". These new accounting pronouncements are discussed in note 3 of our June 30, 2010 financial statements.

*INTERNATIONAL FINANCIAL REPORTING STANDARDS*

In the fiscal year beginning July 1, 2011 we will commence reporting under International Financial Reporting Standards ("IFRS"). We evaluated the impact of IFRS on our financial accounting and reporting systems and are continuing to make changes so that we can prepare accounting information under IFRS for comparative purposes effective July 1, 2010.

The transition from GAAP to IFRS is a significant undertaking that may materially affect our reported financial position and operations. We working through an IFRS conversion process and expect to be IFRS compliant by July 1, 2011. IFRS will not only impact the presentation and disclosure of items in the financial statements but also the determination of future income and the measurement of balance sheet items. Over the course of the last two years, we have revised the presentation of our financial statements to more closely correspond to the requirements of IFRS.

We are preparing a July 1, 2010 balance sheet in accordance with IFRS that will form the opening position of our comparative financial statements when reporting under IFRS. We believe that the following IFRS standards will have the most significant impact on us:

- 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

We have substantially completed our IFRS planning including decisions on accounting policy choices, policy positions and execution and our communications strategy. Implementing IAS 16 – Property, plant and equipment is taking a lot of work because of the extent and complexity of our manufacturing plants. As a result, we have upgraded our equipment register software and have hired an accountant to work with our facilities staff to draw up a complete list of physical plant that reflects the different lives of each asset component. We early-adopted CICA Handbook Section 1582 (which governs the purchase of businesses) since this section is equivalent to IFRS standards on business combinations. This will reduce the reconciliation work for any future business purchases that we complete before adopting IFRS. We have also expanded quantitative disclosure in our financial statements to more closely correspond to IFRS requirements.

We are currently working on our July 1, 2010 transition balance sheet, which we will have audited in conjunction with our year-end. A significant part of the IFRS conversion relates to amending our fiscal 2011 financial statements to conform to IFRS and, in particular, to recalculating amortization of plant and equipment and stock-based compensation in accordance with our IFRS accounting policies. We are working on the necessary analysis that we expect to complete it by June 30, 2011.

### **Environmental and Occupational Safety Issues**

We melt and machine materials that have the potential, if not controlled and handled appropriately, to have a negative effect on health and the environment. In addition, our operations use materials such as cutting and hydraulic fluids, which have the capacity to cause environmental contamination if left uncontained.

To mitigate these potential risks we:

- employ manufacturing practices to minimize and eliminate dispersal of fumes and dust;
- use trap basins and fluid reservoirs to capture and retrieve possible overages;
- use of active exhaust vents/hoods located in equipment areas to capture and filter air;
- regularly scheduled assessment and maintenance of in-house ventilation systems;
- require our employees to use appropriate personal protective equipment (respirators, outer garments, gloves, etc.) selected to limit and protect them from any potential exposures;
- conduct beryllium lymphocyte proliferation tests (BeLPT) to determine employees' potential for sensitivity to beryllium prior to possible exposure;
- undertake ongoing air quality monitoring and perform periodic employee health exams as per occupational health guidelines; and
- limit access to areas that may have a potential exposure to beryllium dust particles.

We have improved our materials handling procedures but, as discussed in more detail under *Manufacturing Operations – Copper Alloys* above, routine blood testing has revealed that certain employees have blood levels of a certain metal that are above acceptable levels. Accordingly five employees are not working in their normal job functions. We believe that these problems are the result of old procedures and that the steps we have taken are appropriate to control the

future potential risks associated with this type of industry, however we remain subject to a certain amount of risk.

As with all industry, we are subject to periodic inspection by state and local safety, health and environmental authorities. If during an inspection a failing was noted in our system, the potential for the temporary or permanent closure of the facilities could exist. If during the periodic employee health screening, an employee displays elevated exposure to metals, it could require us to place the employee on sick leave, which would have the potential to impact both our direct and indirect costs and cause a disruption of production. There is also the potential that an inherent safety or environmental exposure, if uncontrolled, could initialize a suit by employees or neighbours.

To minimize the risks arising from pre-acquisition activities, we commissioned phase one environmental reviews prior to acquiring our copper alloys businesses. It may be possible that environmental problems remain at our facilities that these phase one assessments did not uncover. Our engineered materials operations previously operated from a facility that is recognized as having environmental issues as a result of the activities of the previous owner's other business operations. These issues are not connected to the business that we acquired. We have relocated our engineered materials operations to a new location as described above.

## **Shareholders' Equity**

### *SHARE PURCHASE WARRANTS*

In April and May 2011, warrant holders exercised warrants to purchase 524,000 common shares and 49,500 share purchase warrants exercisable at C\$0.25 for gross proceeds of \$80,560. In May 2011, warrants to purchase 75,000 common shares at \$0.15 per share expired unexercised.

### *STOCK OPTIONS*

We have a rolling 10% stock option plan that allows for the issuance of options equal to 10% of the number of issued shares. Our stock option plan was last approved by shareholders in December 2010. In the nine months ended March 31, 2011, 1,125,000 stock options held by employees who are no longer employed by us lapsed.

In January 2011, we granted 250,000 incentive stock options to a consultant at an exercise price of \$0.17 until January 14, 2016.

In March 2011, we granted 3,690,000 incentive stock options to officers, directors, consultants and employees at an exercise price of \$0.18 until March 21, 2016.

In April 2011, we granted 200,000 incentive stock options to a consultant at an exercise price of \$0.16 until April 6, 2013.

In May 2011, we granted 600,000 incentive stock options to an employee at an exercise price of \$0.185 until May 2, 2016.

In May 2011, we granted an investor relations consultant stock option at an exercise price of \$0.20 until May 20, 2013.

In May 2011, the Company granted 200,000 incentive stock options to a consultant, at an exercise price of \$0.26 for a term of five years.

In May 2011, the Company granted 400,000 incentive stock options to a director at an exercise price of \$0.26 for a term of five years.

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*OUTSTANDING SHARE DATA*

As at the date of this MD&A, we have issued:

- A total of 192,222,821 common shares.
- Warrants to purchase 39,061,723 common shares.
- Broker warrants to purchase 4,212,264 common shares.
- Stock options to purchase 19,149,000 common shares.

The maximum number of shares potentially issuable is therefore 254,645,808.