



IBC ADVANCED ALLOYS CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE MONTHS ENDED SEPTEMBER 30, 2014

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IBC Advanced Alloys Corp.
Management's Discussion and Analysis
Three Months Ended September 30, 2014

The following is management's discussion and analysis ("MD&A") of IBC Advanced Alloys Corp., and its subsidiaries, prepared as of November 21, 2014. This MD&A should be read together with the unaudited interim condensed consolidated financial statements for the three months ended September 30, 2014 and the audited consolidated financial statements and related notes for the year ended June 30, 2014. Financial amounts, other than amounts per share or per pound, are presented in thousands of United States dollars ("\$\$") unless indicated otherwise. Canadian dollar amounts are denoted by "C\$".

The terms "IBC", "we", "us" and "our" refer to IBC Advanced Alloys Corp. and its subsidiaries, unless the context otherwise requires.

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.

Our unaudited condensed consolidated interim financial statements for the three months ended September 30, 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") using accounting policies consistent with IFRS as issued by the IASB and interpretations of the International Financial Reporting Interpretations Committee.

Additional information relating to us is available for view on SEDAR at www.sedar.com.

Our Business

We are primarily engaged in developing and manufacturing advanced alloys, in particular beryllium-aluminum alloys and specialty copper alloys. Our head office is located in Vancouver, Canada. There are two 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 including beryllium-aluminum castings. Our manufacturing operations currently employ 73 people. Our manufacturing operations comprise two divisions: Copper Alloys and Engineered Materials.
 - Copper Alloys manufactures and distributes 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.
 - Engineered Materials supplies high-performance beryllium-aluminum components to the aerospace and high-tech manufacturing sectors.
- 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"), Texas A&M University ("Texas A&M") and the Massachusetts Institute of Technology ("MIT") to develop an enhanced beryllium oxide nuclear fuel. This fuel is intended to operate in both current and next generation reactors but with a longer fuel life and a higher safety margin. Other than our VP nuclear fuels who is employed part-time, we do not have any employees directly engaged in research.

We were incorporated under the laws of British Columbia on November 23, 2007 and our common shares are listed on the TSX Venture Exchange (the "TSXV") under the symbol "IB" and on the OTCQX International under the symbol "IAALF".

Corporate Developments

- In August 2014, we appointed Chris Huskamp as executive vice-president business and technical development with a focus on aerospace, automotive and special projects. In this new position, Mr. Huskamp is responsible for developing and implementing business and product development strategies for both Engineered Materials and Copper Alloys.
- In September 2014, we were selected by Lockheed Martin Missiles and Fire Control to provide cast components for the electro-optical targeting system ("EOTS") on the F-35 Lightning II. In October 2014, we began shipping castings for machining.
- In September 2014, we delivered unmanned aerial system ("UAS") demonstration articles manufactured using IBC's proprietary Beralcast® technology to the US Department of Defense's Reliability Information Analysis Center ("RIAC") as a part of a program that evolved from a 2011 development and technical services agreement between us, the US military's Army Research Laboratory ("ARL") and the Naval Air Systems Command ("NAVAIR"), headquartered in Patuxent River, Maryland.
- In November 2014, our Copper Alloys division entered into an arrangement with Baoshida Swissmetal Ltd. and Avins USA Inc. to manufacture a high performance alloy. The three companies will each contribute, at their own cost, the time and expenses necessary to bring this alloy to market. We do not expect that development expenses will be material to our results of operations.

Manufacturing Operations

We currently have four manufacturing operations in the United States that employ 73 people.

Location	Building Area		Leased/ Owned
	m ²	sq ft	
Copper Alloys			
Franklin, IN	4,800	48,800	Owned
Royersford, PA	1,500	16,000	Leased
New Madrid, MO	2,500	26,500	Owned
Engineered Materials			
Wilmington, MA	5,800	63,000	Leased

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.

Our New Madrid plant is located on a 2.4-hectare (6.0 acres) site 265 kilometres (165 miles) 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 when production volumes justify the investment. This facility is underutilized and as a result there is room for significant expansion of plant operations at this location.

ENGINEERED MATERIALS

Engineered Materials supplies high-performance beryllium-aluminum components to the aerospace and high-tech manufacturing sectors. We currently manufacture the Beralcast[®] and ABX[™] families of metal matrices that can be used in commercial and military applications requiring complex, lightweight or high-stiffness parts. We have additional, higher-performance products in development and plan to launch at least one new major product line in the next 12 months. Using our proprietary manufacturing techniques, we plan to make beryllium-aluminum components more accessible and cost-effective.

We have trade name rights to Beralcast[®] and ABX[™]; proprietary know-how; manufacturing equipment; marketing and supply agreements; and US beryllium stockpile bidding requirements and bona fides. Since the manufacturing process is different from that employed for Copper Alloys, we operate a separate manufacturing facility optimized for Beralcast[®] and ABX[™] alloys.

We plan to develop our business by undertaking product-focused development initiatives with established manufacturers and have entered into arrangements with potential aerospace customers and specialty manufacturers in that regard.

In the late summer of 2014, Lockheed Martin Missiles and Fire Control selected Engineered Materials to provide critical cast components for the EOTS system on the F-35 Lightning II. The first component covered by this contract is an EOTS azimuth gimbal housing to be manufactured using Beralcast[®], Engineered Material's proprietary beryllium-aluminum casting alloy.

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This first contract is for production of OEM aircraft fitted with EOTS systems and spares for low-rate initial production (LRIP) lots 7 and 8. Production has begun at Engineered Material's Wilmington, MA manufacturing facility and initial deliveries have been made to the machine shop. Due to delays beyond our control, initial deliveries of completed parts will be later than scheduled but we expect to be able to catch up and we are adding staff to accelerate production. Production will continue through the balance of this year and into 2015. The value of this initial contract is just over \$2.0 million including non-recurring engineering and hard tooling deliverables and has the potential, with subsequent LRIP contract awards, to increase significantly over the life of the F-35 program. The EOTS assembly being produced by Lockheed Martin is for all the F-35 variants and planned production quantities are estimated to be over 3,000 aircraft with deliveries through 2035.

We are currently pursuing other sales opportunities with Lockheed Martin and other aerospace companies but any developments are likely to take place over the next year or longer. We believe that increased production at our Wilmington, MA facility will require replacement of key parts of our furnace within the next 12 months at an expected cost of less than \$1 million.

In February 2014, we signed a non-binding memorandum of understanding with Nu-Cast, based in Londonderry, NH, to collaborate on new beryllium-aluminum investment casting projects and opportunities, initially for the aerospace sector. We plan to work towards increasing manufacturing capacity and improving production efficiencies of our proprietary near-net-shape beryllium aluminum castings. Nu-Cast is supplying tooling and other materials for our F-35 initiative. We continue to discuss joint business development initiatives aimed at increasing market share for IBC's castings.

In general, Beralcast[®] and ABX[™] 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 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 MIT, 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[®]. We believe that a competitor may be working towards the commercial launch of an alternative cast beryllium-aluminum product which if commercially viable would be a direct competitor to Beralcast[®] and ABX[™].

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. As we have done in the past, we may also be able to source beryllium from the US National Defense Stockpile and a third-party business from time to time. We have entered into long-term beryllium and beryllium copper master alloy supply agreements with Ulba. Ulba's ability to honour its

supply obligations will depend on its ability to source raw materials. We are unable to obtain reliable information as to the extent and availability of Ulba's raw material supply, although we understand that production uses long-term stockpiles. Any disruptions in Ulba's ability to manufacture beryllium or CTMA to our specifications would have a materially adverse effect on our business.

In June 2011, we signed a strategic memorandum of understanding with Ulba to further advance and strengthen our relationship and to continue to target emerging opportunities in the global beryllium and rare metals market. Under the terms of the memorandum of understanding, we intend to renew and extend the multi-year binding supply agreements, for both beryllium metal and beryllium master alloys, which will provide us with a consistent and reliable supply. We also agreed with Ulba to examine technological and business development initiatives for the beryllium alloys business.

OPERATING PERFORMANCE AND OUTLOOK

Our first and fourth fiscal quarters are usually stronger than our second and third fiscal quarters. This is due to seasonal factors such as the holiday season and our customers' production schedules. Copper Alloys sales were uncharacteristically slow in the fourth quarter and margins were weaker than expected but operating performance rebounded in the first quarter of fiscal 2015. Engineered Materials sales were up significantly in the fourth quarter, in line with our expectations.

Our gross margin is still adversely affected by our manufacturing costs being spread over a small sales volume; gross margin is particularly affected by underutilization of our Engineered Materials operations, which have relatively high fixed costs and operate far below capacity. We expect that the sales contribution from F-35 components will significantly improve Engineered Materials margins in the third and fourth quarters of fiscal 2015.

Our Copper Alloys division generates about 85% to 90% of our revenues, however this proportion varies from quarter to quarter as our Engineered Materials sales have historically been subject to a seasonal trend of higher sales in the summer and lower sales in the winter. We expect Engineered Materials' proportion of total revenue to increase over the next few years and the seasonality of those sales will become less pronounced. The US and Canada currently account for about 90% of our sales.

We pass the cost of copper through to our customers and do not hold large inventories of copper. Accordingly 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 as we realize gains or losses on our inventories.

Research Initiatives

We are sponsoring and assisting in research initiatives with a view to increasing long-term demand and new market opportunities for beryllium and beryllium oxide. We currently focus on enhanced nuclear fuels.

BERYLLIUM-OXIDE ENHANCED NUCLEAR FUELS

In August 2008, we signed a two-year collaborative research agreement with Purdue to advance that 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. Following successful completion of this research initiative, we signed collaborative

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research agreements with both Purdue and Texas A&M, in April 2011 to further advance the BeO nuclear fuels project. This research initiative continued until December 2013. In October 2014, we presented a paper at the International Atomic Energy Agency's ("IAEA") Technical Meeting on Accident Tolerant Fuels for Light Water Reactors at the Oakridge National Laboratory in Oakridge, Tennessee.

In February 2011, we entered into a memorandum of understanding with Global Nuclear Fuel – Americas, LLC ("GNF-A") where we plan to seek joint venture opportunities to further advance the research to develop, for commercial use, an enhanced uranium oxide - beryllium oxide ("UO₂ – BeO") nuclear fuel suitable for both existing and future nuclear power reactors. Discussions for this initiative are ongoing, and we plan to continue discussions with industry partners with collaborative interests to advance the technology.

Previous Work

Previous work by Purdue nuclear engineers showed that an advanced UO₂ – BeO nuclear fuel could potentially save money by lasting longer and burning more efficiently than conventional nuclear fuels while at the same time increasing demand for BeO. In addition to the cost savings, an advanced UO₂ – 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 and meltdown.

Purdue led the early research into UO₂ – BeO fuel, which is intended to solve the inherent problem of low thermal conductivity of existing uranium oxide fuel. Such 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 UO₂ – 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 UO₂ – BeO nuclear materials are feasible, they would function in existing unmodified nuclear reactors.

IBC-Sponsored Research

Under the terms of the collaborative research 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.

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 BeO 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 UO₂ – BeO fuel is longer lasting, more efficient and provides a larger safety margin than current nuclear fuels.

The 2011-2013 research work met or exceeded expectations in the critical areas of repeatability and scalability of fuel pellet production, and as-fabricated fuel pellet thermal conductivity. The higher thermal conductivity will allow the fuel to attain the desired thermal conductivity with about one-half of the prior BeO content thereby enabling the fuel to achieve its desired power output with lower enriched uranium content, which improves fuel economics.

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The Texas A&M team, led by Dr. Sean McDeavitt, successfully established a repeatable lab-scale pellet production method that should enable fuel manufacturers, utility operators and regulators to confidently and consistently accept the physical properties of BeO pellets from one production batch to another. A repeatable pellet production method is critical to establish consistently high quality UO₂-BeO fuel pellets that can be optimally utilized for industrial irradiation cycles.

These new and higher thermal conductivity measurements are important as they predict the ability to facilitate the same power output but with less BeO than previously expected in each pellet. This has an important and valuable knock-on effect as, with less BeO being used, the uranium content of each pellet may then be increased which in turn supports a reduction in uranium-235 enrichment. This can all be done while still maintaining optimal energy production with longer fuel cycles. This is extremely encouraging for the nuclear industry, especially reactor operators and utility companies, who would gain significant improvements in safety margins and operating economics with our BeO enhanced accident tolerant fuel.

The next step in this research initiative will be to have an industrial assembly of the BeO-enhanced fuel approved for irradiation in a test reactor. We have not allocated funds to this initiative in the current fiscal year and we are seeking a partner to jointly fund the next development step.

Financial

Except as noted, all financial amounts are determined in accordance with IFRS and expressed in thousands of US dollars, except per-share amount.

SELECTED QUARTERLY INFORMATION

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

Quarter Ended	Revenue	Asset impairment	Loss for the period	Basic and diluted loss per share ¹
	\$000	\$000	\$000	\$
December 31, 2012	4,929	-	(1,451)	(0.03)
March 31, 2013	4,603	-	(1,198)	(0.02)
June 30, 2013	5,876	(2,948)	(3,608)	(0.06)
September 30, 2013	4,869	-	(599)	(0.01)
December 31, 2013	3,869	-	(866)	(0.01)
March 31, 2014	3,867	-	(587)	(0.01)
June 30, 2014	4,323	-	(792)	(0.01)
September 30, 2014	4,646	-	(519)	(0.01)

¹ The sum of quarterly loss per share may not add to year-to-date totals due to rounding

Factors affecting quarterly losses include:

- June 30, 2013 – we impaired certain manufacturing-related tangible and intangible assets incurring an aggregate expense of \$2,948 (see *Results of Operations – Manufacturing* below).

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- June 30, 2014 – our Copper Alloys operations had a weak quarter, although this was partly offset by improved Engineered Materials sales. The Copper Alloys weakness was not due to any single factor but had a variety of causes that were not attributable to a long-term trend.

RESULTS OF OPERATIONS

We incurred a loss of \$519 for the three months ended September 30, 2014 compared to a loss of \$599 in the comparative 2013 period. The most significant factor affecting our operating performance in the fiscal period was a return to profitability in our Copper Alloys operations, offset by higher production costs at our Engineered Materials operations, as described below.

Our Copper Alloys revenues decreased to \$3,984 in the three months ended September 30, 2014 from \$4,266 in the three months ended September 30, 2013. Of the decline, we attribute \$174 to a decrease in the price of copper (which is intended to be a pass through), \$189 to a decline in production volume, offset by an increase of \$124 due to changes in by-product sales. The remaining decline in sales is due to other factors such as changes in sales mix.

Our Engineered Materials revenues were essentially unchanged at \$662 in the three months ended September 30, 2014 compared to \$603 in 2013. Engineered operations results were adversely affected by equipment problems and by costs incurred to ramp up production of F-35 components. Our Engineered Materials operations are operating significantly below planned capacity and so fixed facility and depreciation costs are spread over a low sales base. As a result, operating margins are significantly lower than those of Copper Alloys. If we are successful in attracting more orders, our margins will show a marked improvement.

Selling, general and administrative expenses were much the same as in the prior year since our administrative structure is unchanged. We did increase expenditures on investor relations to publicize developments in our Engineered Material operations. Depreciation and amortization expense declined significantly from 2013 as we fully depreciated many assets from the 2008 acquisitions of Freedom and Nonferrous in the intervening period.

Our loss before other items ("operating loss") for the three months ended September 30, 2014 was \$687 compared to an operating loss of \$620 in the comparative 2013 period.

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.

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Three months ended September 30	2014 \$000	2013 \$000
<i>Segment revenues</i>		
Copper Alloys	3,984	4,266
Engineered Materials	662	603
Corporate	-	-
Total revenues	<u>4,646</u>	<u>4,869</u>
<i>Segment operating loss</i>		
Copper Alloys	293	191
Engineered Materials	(665)	(482)
Mineral properties	-	-
Research	(16)	-
Corporate	(299)	(329)
Loss before other items	<u>(687)</u>	<u>(620)</u>

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 20 of our financial statements for the three months ended September 30, 2014.

Copper Alloys

- Our gross profit was determined as follows:

Three months ended September 30	2014 \$000	2013 \$000
Revenue	<u>3,984</u>	<u>4,266</u>
Cost of revenue		
Materials	2,578	2,527
Labour	451	435
Overhead	316	454
Depreciation	88	111
Change in finished goods	(178)	33
Total cost of revenue	<u>3,255</u>	<u>3,560</u>
Gross profit	<u>729</u>	<u>706</u>
Gross margin	<u>18%</u>	<u>17%</u>

- Salaries, wages, and management fees include the cost of manufacturing personnel other than the cost of manufacturing employees included in the cost of sales.
- We provided for bad debts of \$nil in the three months ended September 30, 2014 (June 30, 2014 – \$277).

Engineered Materials

- Our Engineered Materials operations as a whole are operating significantly below capacity but have sizable depreciation charges, so while we report an operating loss, the cash flow performance of our manufacturing operations is significantly better.

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- Our gross profit was determined as follows:

Three months ended September 30	2014	2013
	\$000	\$000
Revenue	662	603
Cost of revenue		
Materials	247	131
Labour	347	289
Overhead	334	295
Depreciation	87	89
Change in finished goods	-	-
Total cost of revenue	1,015	804
Gross profit	(353)	(201)
Gross margin	(53%)	(33%)

- Our Engineered Materials gross profit margin is adversely affected by fixed costs being spread over a small sales volume. In the short term, only material costs are truly variable.
- Our production costs increased in the first quarter as a result of commencing F-35 azimuth gimbal production and a lower than normal yield of other components due to equipment and process problems now believed to be fixed.
- Salaries, wages, and management fees include the cost of manufacturing personnel other than the cost of manufacturing employees included in the cost of sales.

Research

- Research, as distinct from the development of alloys, primarily relates to our nuclear fuel research initiatives that we funded but which were undertaken by Purdue, Texas A&M and MIT. Although we intend to continue research in the future, we did not undertake research programs in 2014 or in the current period. We incur other costs from time to time, but they are not significant in relation to our overall operations.

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 research.
- Corporate consulting fees consist of payments made for general corporate consulting and advice, market assessment and industry research and non-audit or accounting services. We also undertook 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. As a result of new initiatives, particularly regarding our Engineered Materials operations, we increased our investor relations activities and expect they will remain at the current level for the foreseeable future.
- We include corporate-related personnel costs in salaries, wages, and management fees expense. Our CEO and CFO deferred all of their compensation until the March 2014

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private placement and are still deferring 20% of their compensation until our finances improve. Accordingly the cash operating costs were less than the accrued costs reflected in our financial statements.

- Professional fees comprise audit, legal and valuation fees, other than legal fees incurred to acquire properties or for financings, which are capitalized.

Other Income (Expense)

- Our Copper Alloys 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 September 30, 2014 financial statements.
- Other income primarily represents receipts from the sublease of our premises.

Income Taxes

- Deferred tax recoveries are a result of unwinding temporary taxable differences on the Company's property, plant and equipment.

CHANGES IN FINANCIAL POSITION SINCE JUNE 30, 2014

Changes in our financial position since June 30, 2014 relate to operations in the ordinary course other than the issuance of common shares for cash on the exercise of warrants as discussed elsewhere in this MD&A.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2014, we had working capital of \$3,486 including cash and equivalents of \$1,084, as compared to working capital of \$2,680 at June 30, 2014. Factors affecting our liquidity include:

- Copper Alloys generates enough cash to independently support its operations, but Engineered Materials will have to generate additional business to generate positive cash flow. We continue to support Engineered Materials' operations, primarily to acquire beryllium inventory.
- The main limitation on our cash position is the cost of maintaining our corporate office and corporate development initiatives. Related to this are restrictions imposed by our banks that currently prevent us from transferring funds from Copper Alloys to our other segments. Consequently, at present, our corporate office, research and corporate development activities are entirely dependent on our ability to raise equity funds.
- To support our cash position, directors and officers have deferred \$290 of compensation to September 30, 2014.
- We have materials purchase commitments, as detailed in our financial statements, which may exceed our operational needs with the result that we over-invest in inventory. While we currently have more inventory than we need, we expect that increases in production will restore inventory to a normal level.
- In September 2014, BMO Harris Bank extended the term of our line of credit to December 31, 2015 and the maturity of our term loan to September 30, 2019. At the same time, the line of credit was increased from \$2,500 to \$3,500.

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- 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.
- We may be obliged to incur material expenditures on purchases of property, plant and equipment to maintain our productive capacity or service customers. In particular, based on sales initiatives under way, we are contemplating the purchase of equipment to expand our capacity to produce Beralcast[®] products. We will need to raise further capital in order to complete such an expansion.

We may be able to generate additional cash by expanding our bank facilities but we will need to raise additional funds to complete our business plan. There can be no assurance that we will be successful in obtaining such funds.

RELATED PARTY TRANSACTIONS

Particulars of our transactions with related parties are disclosed in note 18 to our September 30, 2014 financial statements. We do not have any contractual relationships with directors or officers other than employment contracts in the ordinary course of business. The contracts are not financially material to our business except that our CEO, CFO and executive vice president of business and technical development are eligible to receive payments of up to C\$675, C\$360 and \$405 respectively in the event of a change of control of IBC, if certain conditions are met. Our directors were paid \$36 per year, but agreed in October 2012 to reduce annual director compensation to \$18 temporarily as part of a broader initiative to reduce overhead expenses. Furthermore, our board, CEO and CFO have agreed to defer all or part of their compensation until the IBC's finances improve.

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 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 21 of our September 30, 2014 financial statements.

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;

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- 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.

In spite of these procedures, we remain subject to risk in this regard.

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.

Shareholders' Equity

SHARE ISSUANCES

Our board and the TSXV have approved the issuance of 33,334 shares to settle a contingent liability of \$30 with a supplier but we have not yet issued the shares.

In the three months ended September 30, 2014, we issued 1,135,451 common shares, relating to warrant exercises described below.

WARRANTS

In the three months ended September 30, 2014, warrant holders exercised 1,135,451 warrants at C\$0.18 for gross proceeds of C\$204 (\$188).

SHARE OPTIONS

We have a rolling 10% share option plan that allows for the issuance of options equal to 10% of the number of issued shares. Shareholders approved our 2013 share option plan at our annual general meeting held in December 2013.

In July 2014, 16,667 options expired unexercised.

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OUTSTANDING SHARE DATA

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

- A total of 80,585,813 common shares. In addition, we plan to issue 33,334 common shares to settle a contingent liability to a supplier.
- Warrants to purchase 23,865,745 common shares.
- Warrants to purchase 161,082 units comprising one common share and one share purchase warrant.
- Share options to purchase 5,903,333 common shares of which 875,000 are subject to disinterested shareholder approval.

The maximum number of shares potentially issuable is therefore 110,710,389.