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Investment Analysis for Intelligent Investors

June 14, 2011

IBC Advanced Alloys Corp. (TSXV: IB) – Reports Increased Sales Revenues; Experiencing Liquidity Issues

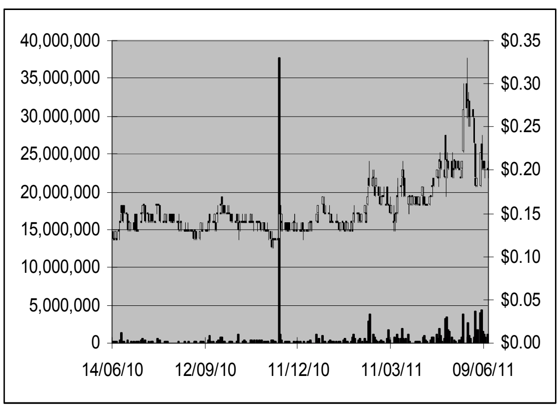
Sector/Industry: Manufacturing

www.ibcadvancedalloys.com

Market Data (as of June 13, 2011)

Current Price	**C$0.20**
Fair Value	**C$0.17 (↓)**
Rating*	**HOLD (↓)**
Risk*	**4 (Speculative)**
52 Week Range	C$0.11 - C$0.33
Shares O/S	191.7 mm
Market Cap	$38.34 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	2.97
YoY Return	66.7%
YoY TSXV	31.2%

*see back of report for rating and risk definitions



Investment Highlights:

- IBC Advanced Alloys Corp. ("IBC" and "the company") recorded $5.27 million in revenues in Q3 2011, up 30.6% YOY, primarily due to the acquisition of Beralcast.
- **Completed analysis of the data obtained from the airborne geophysical survey and identified high interest target zones** in the company's beryllium claims; an exploration program is expected to commence in the Summer of 2011.
- The company recorded a net loss of $0.88 million (EPS: -$0.00) in Q3 2011, compared to a net loss of $0.80 million (EPS: -$0.01) in Q3 2010. Earnings did not meet our expectations due to lower than expected revenues, as well as higher than expected general and administration expenses.
- We have lowered our 2011, and 2012, revenue estimates to $20.4 million and $24.3 million, respectively. Previous estimates were $21.4 million and $25.0 million for 2011, and 2012, respectively.
- The company opened a new manufacturing facility for its Beralcast division. The new facility is approximately 50% larger than the facility it will replace; improvements were made to streamline the manufacturing process in the new facility.
- **Beralcast signed a development and technical services agreement with the US Military.** The purpose of the agreement is to develop, test and evaluate the use of Beralcast's lightweight alloys with the military's unmanned aerial vehicles.
- **IBC entered into the next phase of their nuclear fuels research initiative** with Purdue University and **signed an agreement with Global Nuclear Fuels** (a nuclear fuel manufacturer) to capitalize on GNFs fuel-manufacturing skills.

(All figures in US$, unless otherwise specified)

(US $ in 000's)	2009	2010	2011E	2012E
Revenues	11,617	14,932	20,444	24,000
Cash and cash equivalents	841	5,528	1,450	8,405
Working Capital	(70)	5,902	(1,639)	12,804
Property, Plant and Equipment	6,461	7,534	8,783	8,177
Mineral Property Interests	1,284	936	1,136	1,136
Total Assets	17,306	26,474	23,554	30,580
Net Income	(14,631)	(4,117)	(2,971)	(944)
Earning (Loss) per Share	(0.14)	(0.03)	(0.02)	(0.00)

IBC is engaged in the development and manufacturing of advanced alloys, namely beryllium alloys and specialty copper alloys. They are also currently undertaking beryllium mineral exploration and research on increasing demand for beryllium-related products.

Company Update

IBC's manufacturing division (which supplies beryllium related alloys and non-ferrous alloys for a range of industrial applications) generates 100% of the company's revenues. This division has three subsidiaries (Freedom Alloys, which includes Specialloy, Nonferrous, and Beralcast).

Significant developments since our last report were as follows:

- **March 2011 - the company opened a 63,000 square foot manufacturing facility (including office space) in Wilmington, MA for aluminium alloys processing.** The new facility is about 50% larger than the Concord, MA facility it will replace. The new facility has been designed to give a more streamlined process flow and incorporates additional equipment that will improve efficiency while maintaining their customers' technical and quality requirements. We believe this will benefit IBC in the long run through improved efficiencies and increased capacity to meet the growing demand of their products. In anticipation of the relocation, IBC has increased their shipments in the first two quarters of FY2011, to meet their clients' demands, however, demand for their products were higher than expected. Due to the relocation, the engineered materials operation did not produce anything from the end of March to late May 2011; this closure will likely affect Q4 revenues, and as such, we have lowered our estimate (discussed further in the financial section).

- **The company resolved the supply issues of vacuum-cast beryllium it experienced since Q4 2010 due to delays in securing export licenses**. IBC was able to purchase Beryllium from other sources while they worked on a resolution related to export licenses. IBC had secured long-term contracts with Ulba Metallurgical Plant in March 2010, but was unable to export due to license issues. **The problem is now resolved and shipments of vacuum-cast beryllium have now been reestablished.**

- In March 2011, **Beralcast signed a Development and Technical Services Agreement with the US Military's Army Research Laboratory (ARL) and the Navy's Tactical Multi-Mission Unmanned Aerial Systems Program.** Under the agreement, IBC will work jointly with the ARL and the Naval Air Systems Command to develop, test and evaluate the use of IBC's lightweight Beralcast beryllium aluminum alloys in the United States Armed Forces Fire Scout program and other unmanned aerial vehicles (UAV). The US military is looking at the materials produced by IBC to achieve weight reductions, greater sensor efficiency and component stiffness for specific unmanned aerial vehicle programs. The US military has been interested in UAVs since the 1960s, however, recent technological advances in the past 10-20 years have improved the capabilities drastically and increased interest. The military uses UAVs for reconnaissance missions as well as combat missions. UAVs are not only cheaper than manned aircrafts, but also offer no risk to pilots which are significant benefits and incentives for continued demand. **We believe this is a significant opportunity for IBC to secure long-term contracts with the US military.**

- During FY2010, the copper alloy facility in Royersford experienced ongoing operational difficulties. To remedy this, during the first 9 months of FY2011, the company reorganized the plant's operations including: revised production processes, new equipment, employee training and integrated operations more closely to a sister plant. **The company stated that the reorganization has already generated improved performance in the copper alloy facilities.**

- In April 2011, **the company 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.

- In one of the company's copper alloy plants, five foundry employees were found to have an unacceptable condition due to exposure to one of the elements used in their manufacturing process. As a result, these employees are unable to return to their foundry jobs until their condition improves. The company will be unable to run at full production until these employees are cleared to work at their foundry jobs again.

Financials: Revenues were $5.27 million in Q3 2011, up 30.6% YOY. Revenues were higher in Q3 due to advanced shipments of Beralcast in anticipation of the relocation. Due to the Beralcast plant closure during the relocation, from the end of March to late May 2011, we expect Q4 revenues to be lower. In the table below, we summarize sales and gross margins over the current and previous year. The 30.6% YOY growth in sales was largely a result of the acquisition of Beralcast, which was completed in March 2010 (note that Q3 ends March 31st).

Manufacturing (in US$ 000's)	Q3 2011	Q3 2010	2011 (9mos)	2010 (9mos)
Sales	5270	4034	15349	10361
Cost of Goods Sold	4409	3376	12523	8651
Gross Profit	861	658	2826	1710
Operating Income (loss)	(101)	(25)	(124)	(201)
Gross Margin	16.34%	16.31%	18.41%	16.50%

As can be seen in the above table, gross margins for FY2011 (9 months) improved YOY. This was largely due to increased sales in FY2011 (9 months) and operational difficulties in FY2010. We are expecting margins to be in the low 20's with the global economic recovery and once the relocation of the plant is completed.

The company does business globally with 68% of its revenues coming from North America, 4.7% from Europe and 27.3% coming from Asia. The company is continuing to focus on diversifying its revenue sources and have increased business development activities in an effort to increase global sales. The global diversity of IBC's customers is in line with Materion (formerly Brush Engineered Materials) which has approximately 30% of revenues coming from global sales. We believe IBC's continued focus on global diversity not only increases revenues, but lowers concentration risk associated with focusing on one single geographic location. One customer of IBC consisted of 18.9% of total Q3 2011 revenues.

As a result of the short term disruptions related to the relocation, and loss of staff, we

have lowered our FY2011 revenue forecast to $20.44 million (previous estimate for FY2011 was $21.44 million). The net loss was $0.88 million (EPS: -$0.00) in Q3 2011, compared to a loss of $0.80 million (EPS: -0.01) in Q3 2010. We have revised our net loss forecast for FY2011, and FY2012, to $2.97 million (EPS: -$0.02) and $0.87 million (EPS: -$0.00), respectively. Our previous estimates were $1.85 million (EPS: -$0.01) and $0.07 million (EPS: -$0.00). **We revised our net earnings forecasts due to the lower expected revenues and higher than expected general and administration expenses** realized in the first three quarters.

Exploration division - As mentioned in our previous report, the company completed an airborne geophysical survey in 2010 on its flagship beryllium property. As of May 2011, the company has completed the analysis of the data obtained from the 718 square kilometer airborne geophysical survey and have developed an exploration program for the beryllium claims. **The exploration program will begin with Phase One, which is planned for Summer 2011, consisting of exploratory drilling of high interest target zones.** The exploratory drill permits are currently being prepared for submission and drilling can commence once the permits have been approved.

Research and Development (R&D) division - IBC entered into the next phase in their nuclear fuel initiative which is aimed at developing an enhanced beryllium oxide (BeO) nuclear fuel that is longer lasting, more efficient and safer than current nuclear fuels. Purdue (one of the universities participating in the research) has filed provisional patents covering the IBC-funded nuclear fuel research. The basic idea of the BeO enhanced fuel is to achieve an overall increase in thermal conductivity - higher thermal conductivity allows the fuel to 'burn' more efficiently and in case of emergency, cool faster. **In February 2011, the company successfully completed its initial testing of the fuel**, which included nuclear engineering simulations, and thermal modeling, which demonstrated the potential benefits of the fuel in light water reactor systems. As of 2009, light water reactor systems (reactors using normal water for coolant and moderation) made up the vast majority of civil nuclear reactors and naval propulsion reactors due to their lower cost and simpler design.

IBC signed a Memorandum of Understanding with Global Nuclear Fuels (a JV with GE Energy - a division of General Electric - NYSE: GE, Toshiba - OTCPK: TOSBF and Hitachi - NYSE: HIT); GNF will assist the fuel research by applying the advanced oxide process to uranium fuel pellets produced by GNF's fuel fabrication plant. At the conclusion of the current research phase, it is anticipated that an industrial assembly of the BeO enhanced fuel will be approved for irradiation in a test reactor (testing how the fuel behaves while radiation is present). We believe if the fuel research continues to deliver promising results, the benefits of the fuel are extremely promising, and will likely be welcomed by all due to the cost savings and safer operations of the fuel, which in turn will increase demand for beryllium.

IBC completed its arrangement with Hydrogen Link whereby the two companies collaboratively conducted an industry study on solid state hydrogen cells. IBC is currently working to identify potential industry partners to potentially form a joint venture to improve and expand on lithium-beryllium metal hydride technologies and is reviewing the feasibility of commercializing beryllium based hydrogen storage.

Near-term Business Strategy

The company continues to focus on expanding its market share in the beryllium market and further integrate its manufacturing facilities to increase production efficiencies. **Management will focus on delivery time, customer relations, and specialized patented materials, which they believe their competitors lack, to generate future revenue growth and acquire market share from existing companies. IBC is also focusing on growing the market of Beryllium products through its funding of Research and Development projects.**

Financials

Liquidity position: As shown in the table below, free cash flows have consistently been negative; the positive CFO in Q3 2011 was largely due to an increase in accounts payable and accrued liabilities.

Cash Flow (US$, 000s)	Q3 2011	2011 (9mos)	Q3 2010	2010 (9mos)
CFO	684	(824)	57	(310)
CFF	(89)	1	8,886	8,737
CFI	(1,676)	(2,535)	(2,344)	(2,579)
FCFF	(898)	(2,834)	(2,110)	(2,477)

At the end of Q3-2011, the company had $2.21 million in cash and cash equivalents, and a negative working capital of $1.57 million. **The negative working capital was primarily due to IBC's relations with Customers Bank being terminated and the long-term debt being reclassified as current liabilities.** IBC has been in breach of certain covenants with Customers Bank and M&I Bank for over a year and as such, Customers Bank demanded full payment of all its debt by November 23, 2010. IBC was unable to make the payment and subsequently **entered into a forbearance agreement requiring full payment of the loan and line of credit by June 30, 2012.** IBC has received a waiver from M&I Bank in respect of the breach of covenants. As of March 31, 2011, the company had $5.06 million in current debt. IBC is planning to refinance its maturing debt. We believe this is highly uncertain given that the company is in forbearance with one bank and another bank has waived the breach of covenants. As such, we have assumed in our models that the company raises half the debt owed with equity and is able to refinance the other half with debt. (If IBC is unable to raise the capital needed with debt, we assume they will use the funds raised in the equity offering, mentioned below, to avoid default).

On May 31, 2011 IBC announced it will be raising a minimum of $4 million up to a maximum of $7 million. According to the company, the net proceeds of the offering will be used to continue to expand and update the engineered materials and alloys divisions, fund new business developments and continue the nuclear fuels research initiative and minerals exploration.

The following chart summarizes the company's liquidity position as of March 31 2011 (end Q3 2011).

(US $ in 000's, except ratio and %)	2009	2010	Q1 2011	Q2 2011	Q3 2011
Working Capital	(70)	5,902	5,229	4,702	(1,574)
Current Ratio	0.99	1.87	1.80	1.86	0.86
LT Debt / Assets	17.4%	16.0%	17.3%	18.5%	1.1%
Cash from Financing Activities	2,010	8,737	226	(137)	(89)

Stock Options and Warrants: The company has 19.15 million options outstanding with an average exercise price of $0.18 and 43.27 million warrants outstanding with an average exercise price of $0.25. Below is a summary of the options and warrants on the company's shares.

Warrants	Exercise Price	Expiration
30,490,677	0.25	3/23/2012
4,162,764	0.17	3/23/2012
1,785,714	0.17	04/16/2012
6,834,832	0.29	5/29/2012
43,273,987	**0.25**	

Stock Options	Exercise Price	Term (years)
8,155,000	0.15	2.95
200,000	0.16	2
4,660,000	0.17	4.59
4,090,000	0.18	4.27
600,000	0.19	5
200,000	0.20	2
200,000	0.26	5
400,000	0.26	5
229,000	0.50	2.12
40,000	0.51	2.61
150,000	0.55	3
225,000	0.83	2.44
19,149,000	**0.18**	

We estimate the company can raise up to $3.95 million if all the "in-the-money" options and warrants are exercised.

Valuation

Although the company currently has three divisions (namely manufacturing, mineral exploration and R&D), we have continued to base our valuation solely on the manufacturing division and exploration projects. Due to the early stage nature of its exploration projects, we valued those projects at their book value. Our revised discounted cash flow (DCF) model gave a slightly lower fair value estimate at $0.14 per share, down from our previous estimate of $0.15 per share.

DCF Valuation (USD$)	Q4 2011 E	2012E	2013E	2014E	2015E
AFFO	371,268	1,680,232	4,041,021	3,768,594	3,830,709
Change in WC	(658,562)	(1,036,139)	(149,829)	(143,147)	(134,728)
CFO	(287,293)	644,093	3,891,192	3,625,448	3,695,980
CAPEX	(13,000)	(300,000)	(300,000)	(300,000)	(300,000)
Free Cash Flow	(300,293)	344,093	3,591,192	3,325,448	3,395,980
PV	(292,560)	302,011	2,839,631	2,368,920	2,179,428
	2016E	**2017E**	**2018E**	**2019E**	**Terminal**
AFFO	3,764,038	3,715,241	3,711,186	3,759,447	3,855,712
Change in WC	(438,737)	(470,288)	(504,150)	(540,496)	(579,510)
CFO	3,325,301	3,244,953	3,207,036	3,218,951	3,276,202
CAPEX	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)
Free Cash Flow	3,025,301	2,944,953	2,907,036	2,918,951	2,976,202
PV	1,749,134	1,533,945	1,364,139	1,233,992	15,727,434
Discount Rate	11%				
Terminal Growth	3%				
Firm PV	$29,006,074				
Cash	$2,207,000				
Debt	$8,092,000				
Book value of mineral property	$1,065,000				
PV Equity (US$)	$24,186,074				
PV Equity (C$)	$26,604,681				
Shares O/S (dil)	196,762,341				
DCF Value(C$)/Share	**$0.14**				

In addition to the DCF model, we valued IBC based on Materion's (formerly Brush Engineered Materials- NYSE: MTRN) average Enterprise Value to Sales and Price to Book ratios (shown below).

Materion (5 Year Average)	
Materion TEV/S	0.76
Materion P/B	1.79

IBC valuation based on industry peer	
(in 000's)	
TEV/S (2011E)	$15,456
P/B	$20,051
Average	**$17,753**
Cash	$2,207
Debt	$8,092
Book value of mineral property	$1,065
PV Equity (US$)	$12,933
PV Equity (C$)	$13,580
Shares O/S (dil)	196,762
Value/Share	**$0.07**

Our comparables valuation on IBC dropped from \$0.10 to \$0.07 due to the drop in book value and as we lowered our sales forecasts.

Conclusions & Rating

Due to the uncertainty in the company's liquidity position and our drop in fair value, we have changed our rating to Hold from Buy and reduce our fair value estimate to \$0.17 per share (previously \$0.20 per share). However, we believe the company's recent exploration and R&D initiatives are promising and could bring significant upside to our current valuation as well as the recently signed deals in their manufacturing segment.

Risks

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The company depends on a few suppliers for its raw beryllium production source.
- The company faces larger manufacturing competitors in the industry that have considerable financial resources and established customer base.
- The company has no history of mineral production or mining operation.
- The company's business may be adversely affected by changes in commodity prices.
- The company's manufacturing operations involve beryllium, which is under extensive government regulations.

We rate the company's shares a RISK of 4 (Speculative).

IBC Advanced Alloys Corp. - Balance Sheets
(in US$ 000's)

	2008	2009	2010	2011E	2012E
Assets					
Current Assets					
Cash and cash equivalents	6,366	841	5,528	1,450	8,405
Receivables	1,309	1,730	3,167	3,475	4,320
Income taxes refundable	-	562	49	49	49
Prepaid Expenses and Deposits	26	44	80	80	80
Inventories	2,676	3,524	3,835	3,884	4,320
	10,377	**6,701**	**12,659**	**8,939**	**17,174**
Property, Plant and Equipment	1,486	6,461	7,534	8,783	8,177
Mineral Property	1,046	1,284	936	1,136	1,136
Deferred acquisition costs	525	-			
Goodwill and Intangible assets	9,980	2,762	3,117	2,483	1,879
Deposits	-	13	53	28	28
Goodwill	7,580	-	2,154	2,154	2,154
Note receivable from related party	-	-			
Other assets	13	85	21	31	31
	23,428	**17,306**	**26,474**	**23,554**	**30,580**
Liabilities					
Current Liabilities					
Accounts Payable and Accrued Liabilities	1,297	1,048	2,934	2,522	2,766
Line of credit	1,900	2,979	2,601	2,769	1,468
Current Portion of loans payable	1,165	2,681	1,007	5,151	
Other current liabilities	-	-	161	74	74
Interest rate swap	-	63	54	61	61
	4,362	**6,771**	**6,757**	**10,577**	**4,369**
Notes payable	-	3,000	3,000		
Loans payable	12	4	1,473	-	3,226
Future income taxes	1,113	2,255	1,800	1,800	1,800
	5,487	**12,030**	**13,030**	**12,377**	**9,395**
Shareholders' Equity					
Common shares	18,192	19,654	31,192	31,192	41,419
Equity component of convertible debt	-	-			
Contributed Surplus	2,942	3,462	4,169	4,873	5,597
Brokers' warrants	498	483	523	523	523
Deficit	(3,692)	(18,323)	(22,440)	(25,411)	(26,355)
	17,941	**5,276**	**13,444**	**11,177**	**21,184**
Total Liabilities and S.E	**23,428**	**17,306**	**26,474**	**23,554**	**30,580**

IBC Advanced Alloys Corp. - Income Statement
(in US$ 000's)

	2008	2009	2010	2011E	2012E
Revenues	**978**	**11,617**	**14,932**	**20,444**	**24,000**
Cost of Goods Sold	998	11,363	12,828	16,815	18,442
Gross profit (loss)	**(20)**	**254**	**2,104**	**3,629**	**5,558**
Expenses					
General and Administrative	1,334	3,595	4,424	4,900	4,800
Stock-Based Compensation	2,227	718	279	704	725
EBITDA	**(3,581)**	**(4,058)**	**(2,599)**	**(1,975)**	**33**
Amortization	59	479	354	396	377
EBIT	**(3,640)**	**(4,538)**	**(2,953)**	**(2,371)**	**(344)**
Interest Expenses	(28)	(450)	(759)	(600)	(600)
Interest Income	243	72	6		
EBT	**(3,424)**	**(4,916)**	**(3,706)**	**(2,971)**	**(944)**
Write-off of Mineral Properties	-	(191)	(718)		
Foreign Exchange Gains/Losses	(361)	(1,000)	(15)		
Other assets write-off	-	(9,640)	(75)		
Gain (loss) on financial instruments held foı	-	(63)	9		
Other income	-	31	68		
Income Tax	92	1,148	320		-
Net Earnings for the period	**(3,693)**	**(14,631)**	**(4,117)**	**(2,971)**	**(944)**
EPS	(0.05)	(0.14)	(0.03)	(0.02)	(0.00)

IBC Advanced Alloys Corp. - Cash Flows
(in US$ 000's)

	2008	2009	2010	2011E	2012E
Operating Activities					
Net Income	**(3,693)**	**(14,631)**	**(4,117)**	**(2,971)**	**(944)**
Non-Cash Items:					
Amortization	83	1,006	1,425	1,585	1,510
Future Income Tax	(92)	(586)	(455)		
Stock Based Compensation	2,227	718	279	704	725
Exploration property write-off	-	191	718		
Impairment	-	9,640	75		
Doubtful debts expense	-	59	6		
Inventory write-down	-	332	-		
Net loss on financial instruments held for trac	-	-	-		
Accrued income / (expense)	-3.939	0	146		
Foreign exchange loss	-	1,000	15		
Non cash payment of salary					
	(1,479)	(2,271)	(1,908)	(683)	1,290
Change in Non-Cash Working Capital Items:					
Receivable	473	1,181	(1,565)	(308)	(845)
Inventories	(132)	2,465	(311)	(49)	(436)
Prepaid expenses	4	15	(35)	-	-
Other current assets	-	75	115	(10)	
Accounts Payable and Accrued Liabilities	251	(1,344)	1,877	(412)	244
Others				(55)	-
Income taxes payable or refundable	-	(559)	681	-	-
	597	1,834	762	(835)	(1,036)
Net Cash Used in Operating Activities	**(882)**	**(438)**	**(1,146)**	**(1,517)**	**254**
Financing Activities					
Issuance of shares	7,445	976	9,103	-	10,227
Recapitalization (net of share issue and recap	9,971	-	-		
Related party transactions	-	1,673	-		
Loan repayments	(40)	-	(205)	(329)	(5,151)
Convertible note payables	-	-	238		
Loan proceeds	-	-	230		3,226
Repayments of line of credit	-	(638)	(608)	168	(1,301)
Deferred financing costs					
Shareholder advances	25	-			
	17,401	**2,010**	**8,758**	**(161)**	**7,001**
Investing Activities					
Advances to subsidiary before acquisition	(165)	-			
Deposit	-	-	(51)		
Deferred acquisition costs	(492)	-			
Investment in mineral properties	(478)	(334)	(362)	(200)	
Purchase of plant, equipment, and intangible	(1)	(312)	(238)	(2,200)	(300)
Purchase of subsidiaries, net of cash acquired	(9,117)	(6,006)	(2,250)		
Repayment of advances from shareholder	(50)	485			
	(10,303)	**(6,167)**	**(2,901)**	**(2,400)**	**(300)**
Foreign exchange effect on cash	0	-929.178	-24		
Increase (decrease) in Cash	**6,217**	**(5,525)**	**4,687**	**(4,078)**	**6,955**
Cash (BOP)	148.938	6365.904	841	5,528	1,450
Cash (EOP)	**6,366**	**841**	**5,528**	**1,450**	**8,405**

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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