

SCANDIUM INTERNATIONAL MINING CORP.  
Form 10-Q  
November 14, 2018

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended **September 30, 2018**

**TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**000-54416**  
(Commission File Number)

**SCANDIUM INTERNATIONAL MINING CORP.**  
(Exact name of registrant as specified in its charter)

**British Columbia, Canada**  
(State or other jurisdiction  
of incorporation or organization)

**98-1009717**  
(IRS Employer  
Identification  
No.)

**1430 Greg Street, Suite 501, Sparks, Nevada 89431**  
(Address of principal executive offices) (Zip Code)

**(775) 355-9500**  
(Registrant's telephone number, including area code)

**N/A**  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by sections 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes   
No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). Yes [**X**] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [**X**]

Indicate by check mark whether the registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act. Yes [ ] No [**X**]

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: **As of November 14, 2018, the registrant's outstanding common stock consisted of 304,781,294 shares.**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2018**

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**Scandium International Mining Corp.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Expressed in US Dollars) (Unaudited)

**As at:** September 30, 2018 December 31, 2017

**ASSETS**

**Current**

Cash	\$	725,488	\$	343,434
Prepaid expenses and receivables		18,111		45,986

**Total Current Assets** 743,599 389,420

**Equipment** (Note 3) 13,284 1,947

**Mineral property interests** (Note 4) 704,053 704,053

**Total Assets** \$ 1,460,936 \$ 1,095,420

**LIABILITIES AND STOCKHOLDERS EQUITY**

**Current**

Accounts payable and accrued liabilities	\$	16,728	\$	34,153
Accounts payable with related parties (Note 5)		23,207		32,036

**Total Liabilities** 39,935 66,189

**Stockholders Equity**

Capital stock (Note 6) (Authorized: Unlimited number of common shares;

Issued and outstanding: 304,781,294 (2017 291,970,239) 108,244,311 106,468,869

Treasury stock (Note 7) (1,033,333 common shares) (2017 1,033,333) (1,264,194) (1,264,194)

Additional paid in capital (Note 6) 5,651,604 4,617,484

Accumulated other comprehensive loss (853,400) (853,400)

Deficit (110,357,320) (107,939,528)

**Total Equity** 1,421,001 1,029,231

**Total Liabilities and Equity** \$ 1,460,936 \$ 1,095,420

Nature and continuance of operations (Note 1)

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



**Scandium International Mining Corp.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(Expressed in US Dollars) (Unaudited)

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
<b>EXPENSES</b>				
Amortization (Note 3)	\$ 158	\$ 158	474	\$ 813
Consulting	84,831	57,595	220,642	131,062
Exploration	104,869	60,630	250,380	204,969
General and administrative	66,431	73,536	260,434	194,400
Insurance	7,520	7,272	22,314	21,599
Professional fees	6,474	30,773	81,986	71,815
Salaries and benefits	116,098	159,981	429,996	466,808
Stock-based compensation (Note 6)	69,411	67,877	1,054,456	1,225,784
Travel and entertainment	16,202	19,788	59,768	62,945
	(471,994)	(477,610)	(2,380,450)	(2,380,195)
Foreign exchange gain (loss)	10,213	42,393	(37,342)	79,569
<b>Loss and comprehensive loss for the period</b>	(461,781)	(435,217)	(2,417,792)	(2,300,626)
<b>Costs allocable to non-controlling interest in a subsidiary</b>	-	26,148	-	73,488
<b>Loss and comprehensive loss for the period attributable to Scandium International Mining Corp.</b>	\$ (461,781)	\$ (409,069)	\$ (2,417,792)	\$ (2,227,138)
<b>Basic and diluted loss and comprehensive loss per common share attributable to Scandium International Mining Corp.</b>	\$ ( 0.00)	\$ ( 0.00)	\$ ( 0.01)	\$ 0.01
<b>Weighted average number of common shares outstanding</b>	304,773,142	231,871,315	299,976,402	229,218,244

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



**Scandium International Mining Corp.**

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in US Dollars) (Unaudited)

9-month period ended	September 30, 2018	September 30, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (2,417,792)	\$ (2,300,626)
Items not affecting cash:		
Amortization	474	813
Stock-based compensation	1,054,456	1,225,784
Changes in non-cash working capital items:		
Decrease in prepaids and receivables	27,875	19,683
(Decrease) increase in accounts payable, accrued liabilities and accounts payable with related parties	(26,254)	16,175
	(1,361,241)	(1,038,171)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to fixed assets	(11,811)	-
	(11,811)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Common shares issued	1,675,300	1,082,250
Options exercised for common shares	79,806	195,151
	1,755,106	1,277,401
<b>Change in cash during the period</b>	382,054	239,230
<b>Cash, beginning of period</b>	343,434	615,234
<b>Cash, end of period</b>	\$ 725,488	\$ 854,464
	<b>2018</b>	<b>2017</b>
<b>Cash paid during the 9 month period for interest</b>	\$ -	\$ -
<b>Cash paid during the 9 month period for taxes</b>	\$ -	\$ -

There were no significant non-cash investing and financing activities during the nine-month periods ended September 30, 2018 and 2017.

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



**Scandium International Mining Corp.**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN  
EQUITY

(Expressed in US Dollars) (Unaudited)

	Number of Shares	Capital Stock	Additional Paid in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Def
<b>Balance, December 31, 2016</b>	<b>225,047,200</b>	<b>\$ 91,142,335</b>	<b>\$ 6,844,671</b>	<b>\$ (1,264,194)</b>	<b>(853,400)</b>	<b>(93,4</b>
Private placement	4,807,394	1,082,250	-	-	-	
Options exercised	3,285,000	414,052	(218,902)	-	-	
Minority interest acquisition	58,830,645	13,830,232	(3,292,115)	-	-	(11,7
Stock-based compensation	-	-	1,283,830	-	-	
Loss for the year	-	-	-	-	-	(2,7
<b>Balance, December 31, 2017</b>	<b>291,970,239</b>	<b>106,468,869</b>	<b>4,617,484</b>	<b>(1,264,194)</b>	<b>(853,400)</b>	<b>(107,9</b>
Private placement	11,801,055	1,675,300	-	-	-	
Options exercised	1,010,000	100,142	(20,336)	-	-	
Stock-based compensation	-	-	1,054,456	-	-	
Loss for the period	-	-	-	-	-	(2,4
<b>Balance, September 30, 2018</b>	<b>304,781,294</b>	<b>\$ 108,244,311</b>	<b>\$ 5,651,604</b>	<b>\$ (1,264,194)</b>	<b>(853,400)</b>	<b>(110,3</b>

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

**Scandium International Mining Corp.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2018

(Expressed in US Dollars) (Unaudited)

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Scandium International Mining Corp. (the Company) is a specialty metals and alloys company focusing on scandium and other specialty metals.

The Company was incorporated under the laws of the Province of British Columbia, Canada in 2006. The Company currently trades on the Toronto Stock Exchange under the symbol SCY.

The Company's focus is on the exploration and evaluation of its specialty metals assets, specifically the Nyngan scandium deposit located in New South Wales, Australia. The Company is an exploration stage company and anticipates incurring significant additional expenditures prior to production at any and all of its properties.

These condensed consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and discharge of liabilities at their carrying values in the normal course of business for the foreseeable future. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

The Company currently earns no operating revenues and will require additional capital in order to advance the Nyngan property. The Company's ability to continue as a going concern is uncertain and is dependent upon the generation of profits from mineral properties, obtaining additional financing and maintaining continued support from its shareholders and creditors. These are material uncertainties that raise substantial doubt about the Company's ability to continue as a going concern. In the event that additional financial support is not received or operating profits are not generated, the carrying values of the Company's assets may be adversely affected.

**2. BASIS OF PRESENTATION**

**Basis of presentation**

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The interim condensed consolidated financial statements include the consolidated accounts of the Company and its wholly-owned subsidiaries with all significant intercompany transactions eliminated. In the opinion of management, all adjustments necessary for a fair statement of the consolidated financial position, results of operations and cash flows for the interim periods have been made. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with generally accepted accounting principles of the United States of America (US GAAP) have been condensed or omitted pursuant to such SEC rules and regulations. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017 and with our Annual Report on Form 10-K filed with the SEC on February 28, 2018. Operating results for the nine-month period ended September 30, 2018 may not necessarily be indicative of the results for the year ending December 31, 2018.

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, EMC Metals USA Inc., Scandium International Mining Corp. Norway AS, SCY Exploration Finland Oy, and EMC Metals Australia Pty Ltd. (EMC-A). Non-controlling interest represents the minority stockholders' 20% proportionate share of the net assets and results of the Company's majority-owned

Australian subsidiary, EMC-A, until October 2017 (Note 9). All significant intercompany accounts and transactions have been eliminated on consolidation.

### **Use of estimates**

The preparation of unaudited interim condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to the deferred income tax asset valuations, asset impairment, stock-based compensation and loss contingencies. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between estimates and the actual results, future results of operations will be affected.

The Company considers itself to be an exploration stage company and will consider the transition to development stage after it receives funding to begin mine construction, and board approval.

### **Fair value of financial assets and liabilities**

The Company measures the fair value of financial assets and liabilities based on US GAAP guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount.

**Scandium International Mining Corp.**

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(Expressed in US Dollars) (Unaudited)

**2. BASIS OF PRESENTATION** (cont d )

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income.

Financial instruments, including receivables, accounts payable and accrued liabilities, and accounts payable with related parties are carried at amortized cost, which management believes approximates fair value due to the short-term nature of these instruments.

The following table presents information about the assets that are measured at fair value on a recurring basis as at September 30, 2018 and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and included situations where there is little, if any, market activity for the asset:

	September 30, 2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Cash	\$ 725,488	\$ 725,488	\$	\$
Total	\$ 725,488	\$ 725,488	\$	\$

The carrying value of receivables, accounts payable and accrued liabilities, and accounts payable with related parties approximate their fair value due to their short-term nature.

The fair value of cash is determined through market, observable and corroborated sources.

**Recently Adopted and Recently Issued Accounting Standards**

Accounting Standards Update 2018-13 Fair Value Measurement (Topic 840) Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this update apply to all entities that are required, under existing GAAP, to make disclosures about recurring or nonrecurring fair value measurements. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on its financial statements.

Accounting Standards Update 2018-11 - Leases (Topic 842) Targeted Update. This accounting pronouncement is an update to Accounting Standard 2016-02 (see below). This standard allows for an additional (and optional) transition method. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, with

early adoption permitted. The Company is currently evaluating the impact this guidance will have on its financial statements.

Accounting Standards Update 2018-07 Compensation Stock Compensation (Topic 718) Improvements to Nonemployee Share-Based Payment Accounting. This accounting pronouncement deals with simplification of share-based accounting in efforts to maintain or improve the usefulness of the information provided to the users of financial statements while reducing cost and complexity in financial reporting. The areas for simplification in this Update involve several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, Compensation Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company will adopt this policy with no expected material effect to the condensed consolidated financial statements.

Accounting Standards Update 2017-09 Compensation Stock Compensation (Topic 718) Scope of Modification Accounting. This accounting pronouncement deals with a change in any of the terms or conditions of a share-based payment award. The standard goes into effect for all interim and annual statements beginning after December 15, 2017. The Company has adopted this policy with no material effect to the condensed consolidated financial statements.

Accounting Standards Update 2016-02 - Leases (Topic 842). This accounting pronouncement allows lessees to make an accounting policy election to not recognize a lease asset and liability for leases with a term of 12 months or less and that do not have a purchase option that is expected to be exercised. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on its financial statements.

**Scandium International Mining Corp.**

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(Expressed in US Dollars) (Unaudited)

**2. BASIS OF PRESENTATION (cont d )**

Accounting Standards Update 2016-01 Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This accounting pronouncement, which goes into effect for annual periods beginning after December 12, 2017, is far reaching and covers several presentation areas dealing with measurement, impairment, assumptions used in estimating fair value and several other areas. The Company has adopted this policy with no material effect to the condensed consolidated financial statements.

**3. EQUIPMENT**

	December 31, 2017 Net Book Value	Additions (disposals) (write-offs)	Amortization	September 30, 2018 Net Book Value
Office equipment	\$ 1,947	\$ 11,811	\$ (474)	\$ 13,284

	December 31, 2016 Net Book Value	Additions (disposals) (write-offs)	Amortization	December 31, 2017 Net Book Value
Office equipment	2,918	-	(971)	1,947

**4. MINERAL PROPERTY INTERESTS**

September 30, 2018	Scandium and other
<b>Acquisition costs</b>	
<b>Balance December 31, 2017 and September 30, 2018</b>	\$ 704,053

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral property interests. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its properties is in good standing.

**SCANDIUM PROPERTIES***Nyngan, New South Wales Property*

The Company holds a 100% (Note 9) interest in the Nyngan property in New South Wales, Australia ( NSW ). A definitive feasibility study was completed on the property in fiscal 2016. During December 2017, the Company revised and renewed a scandium product offtake agreement for delivery of scandium-based product upon availability from mine production.

Royalties attached to the Nyngan property include, a 0.7% royalty on gross mineral sales on the property, a 1.5% Net Profits Interest royalty to private parties involved with the early exploration on the property, and a 1.7% Net Smelter Returns royalty payable for 12 years after production commences, subject to terms in the settlement agreement.

Another revenue royalty is payable to private interests of 0.2%, subject to a \$370,000 cap. A NSW minerals royalty will also be levied on the project, subject to negotiation, currently 4% on revenue.

*Honeybugle property, Australia*

The Company holds a 10% interest in its Australian subsidiary which holds title to the Honeybugle properties (Note 9).

*Kiviniemi Scandium Property Finland*

In August 2018, the Company was granted an Exploration License for the Kiviniemi Scandium Property in central Finland from the Finnish regulatory body governing mineral exploration and mining in Finland. As of September 30, 2018, no funds have been capitalized for this property.

**Scandium International Mining Corp.**

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(Expressed in US Dollars) (Unaudited)

**5. RELATED PARTY TRANSACTIONS**

During the 9-month period ended September 30, 2018, the Company expensed \$695,405 for stock-based compensation for stock options issued to Company directors. During the 9-month period ended September 30, 2017, the Company expensed \$841,930 for stock-based compensation for stock options issued to Company directors.

During the 9-month period ended September 30, 2018, the Company paid a consulting fee of \$76,500 to one of its directors. During the 9-month period ended September 30, 2017, the Company paid a consulting fee of \$76,500 to one of its directors.

As at September 30, 2018, the Company owed \$23,207 to various directors and officers of the Company. (December 31, 2017 - \$32,036)

**6. CAPITAL STOCK AND ADDITIONAL PAID IN CAPITAL**

On May 4, 2018, the Company issued 6,071,888 common shares at a value of C\$0.18 per common share for total proceeds of C\$1,092,940 (\$864,402).

On March 2, 2018, the Company issued 5,729,167 common shares at a value of C\$0.18 per common share for total proceeds of C\$1,031,250 (\$810,898).

On March 17, 2017, the Company issued 1,179,061 common shares at a value of C\$0.29 per common share for total proceeds of C\$341,928 (\$261,375).

**Stock Options**

The Company established a stock option plan (the Plan) under which it is authorized to grant options to executive officers and directors, employees and consultants and the number of options granted under the Plan shall not exceed 15% of the shares outstanding. Under the Plan, the exercise period of the options may not exceed ten years from the date of grant and vesting is determined by the Board of Directors.

Stock option transactions are summarized as follows:

	Stock Options	
	Number	Weighted average exercise price in Canadian \$
Outstanding, December 31, 2016	21,820,000	\$ 0.11
Granted	5,600,000	0.38
Exercised	(3,285,000)	0.08
Expired	(550,000)	0.07



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Outstanding, December 31, 2017	23,585,000		0.18
Granted	6,850,000		0.223
Exercised	(1,010,000)		0.10
Expired	(360,000)		0.27
Outstanding, September 30, 2018	29,065,000	\$	0.194
Number currently exercisable	28,130,000	\$	0.192

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**Scandium International Mining Corp.**

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(Expressed in US Dollars) (Unaudited)

**6. CAPITAL STOCK AND ADDITIONAL PAID IN CAPITAL (cont d )**

As at September 30, 2018, incentive stock options were outstanding as follows:

	Number of Options Outstanding	Number of Options Exercisable	Exercise Price in Canadian \$	Expiry Date
<b>Options</b>				
	3,375,000	3,375,000	0.120	July 25, 2019
				December 30,
	200,000	200,000	0.100	2019
	3,450,000	3,450,000	0.140	April 17, 2020
	250,000	250,000	0.600	May 11, 2020
	400,000	400,000	0.115	August 28, 2020
				November 5,
	4,300,000	4,300,000	0.100	2020
	4,850,000	4,850,000	0.130	February 8, 2021
	400,000	400,000	0.200	June 14, 2021
				February 21,
	4,980,000	4,795,000	0.370	2022
	250,000	100,000	0.300	October 6, 2022
	6,260,000	5,660,000	0.225	January 19, 2023
	350,000	350,000	0.185	August 30, 2023
	29,065,000	28,130,000		

As at September 30, 2018 the Company's outstanding and exercisable stock options have an aggregate intrinsic value of \$2,320,242 (December 31, 2017 - \$1,467,123).

**Stock-based compensation**

During the 9-month period ended September 30, 2018, the Company recognized stock-based compensation of \$1,054,456 (September 30, 2017 - \$1,225,784) in the statement of operations and comprehensive loss as a result of incentive stock options granted, vested and extended in the current period. There were 6,850,000 stock options granted during the 9-month period ended September 30, 2018 (September 30, 2017 - 5,350,000).

The weighted average fair value of the options granted in the period was C\$0.19 (September 30, 2017 - C\$0.32).

The fair value of all compensatory options granted is estimated on grant date using the Black-Scholes option pricing model. The weighted average assumptions used in calculating the fair values are as follows:

	2018	2017
Risk-free interest rate	1.96%	1.48%

Expected life	5 years	5 years
Volatility	127.81%	137.16%
Forfeiture rate	0.00%	N/A
Dividend rate	0.00%	N/A

**7. TREASURY STOCK**

	Number	Amount
Treasury shares, September 30, 2018 and December 31, 2017	1,033,333	\$ 1,264,194
	1,033,333	\$ 1,264,194

Treasury shares comprise shares of the Company which cannot be sold without the prior approval of the TSX.

**Scandium International Mining Corp.**

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(Expressed in US Dollars) (Unaudited)

**8. SEGMENTED INFORMATION**

The Company's mineral properties are located in Australia. The Company's capital assets geographic information is as follows:

<b>September 30, 2018</b>	Australia	United States	Total
Equipment	\$ -	\$ 13,284	\$ 13,284
Mineral property interests	704,053	-	704,053
	\$ 704,053	\$ 13,284	\$ 717,337

<b>December 31, 2017</b>	Australia	United States	Total
Equipment	\$ -	\$ 1,947	\$ 1,947
Mineral property interests	704,053	-	704,053
	\$ 704,053	\$ 1,947	\$ 706,000

**9. EMC METALS AUSTRALIA PTY LTD**

On August 24, 2015, the Company's \$2,500,000 promissory note payable was converted into a 20% ownership interest in EMC-A, with the Company holding an 80% ownership interest. EMC-A held interests in the Nyngan Scandium Project and Honeybugle Scandium property. Upon conversion of the promissory note payable, EMC-A was operated as a joint venture between Scandium Investments LLC (SIL) and the Company. SIL held a carried interest in the Nyngan Scandium Project and was not required to contribute cash for the operation of EMC-A until the Company met two development milestones: (1) filing a feasibility study on SEDAR, and (2) receiving a mining license on either joint venture property. At such time as the two development milestones were met, SIL was to fully participate on project costs thereafter.

Completion of the development milestones by the Company, as described above, activated an option for SIL to convert the fair market value of its 20% joint venture interest in the Nyngan Scandium Project and Honeybugle Scandium property into an equivalent value of the Company's common shares, at the then prevailing market prices, rather than continue with ownership at the project level. SIL elected to exercise the conversion option as described.

On October 10, 2017, the Company announced that it had closed the share exchange transaction to acquire SIL's entire 20% ownership of EMC-A. The Company issued 57,371,565 shares of the Company's common shares at a fair value of \$13,487,223 to acquire SIL's shares of EMC-A and increase the Company ownership of EMC-A from 80% to 100%.

The Company also provided for a pay-out of a 20% portion of a 0.7% revenue-based royalty on Nyngan/Honeybugle that was entered into by the Company in 2015. This royalty was excluded from SIL's share in the project interests, at the time, and as a result an adjustment payment of 1,459,080 common shares at a fair value of \$343,009 was made.

SIL also was granted the right to nominate two directors to the Company Board.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the operating results, corporate activities and financial condition of Scandium International Mining Corp. (hereinafter referred to as we, us, SCY, Scandium, Scandium International Company) and its subsidiaries provides an analysis of the operating and financial results for the three and nine month periods ended September 30, 2018 and should be read in conjunction with our unaudited interim consolidated financial statements and the notes thereto for the nine month period ended September 30, 2018, and with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2017 (the Annual Statements).

This discussion and analysis contain forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth under the heading Risk Factors and Uncertainties in our Annual Report on Form 10-K for the year ended December 31, 2017, and elsewhere in this Quarterly Report on Form 10-Q.

The interim statements have been prepared in accordance with US Generally Accepted Accounting Principles, as required under U.S. federal securities laws applicable to the Company, and as permitted under applicable Canadian securities laws. The Company is a reporting company under applicable securities laws in Canada and the United States. The reporting currency used in our financial statements is the United States Dollar.

The information contained within this report is current as of November 14, 2018 unless otherwise noted. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov](http://www.sec.gov).

Technical information in this MD&A has been reviewed and approved by Willem Duyvesteyn, a Qualified Person as defined by Canadian National Instrument 43-101 (NI 43-101). Mr. Duyvesteyn is a director and consultant of Scandium International.

### Cautionary Note to U.S. Investors Regarding Reserve and Resource Estimates

The Company uses Canadian Institute of Mining, Metallurgy and Petroleum definitions for the terms proven reserves, probable reserves, measured resources and indicated resources. U.S. investors are cautioned that while these terms are recognized and required by Canadian regulations, including National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (NI 43-101), the U.S. Securities and Exchange Commission (SEC) does not recognize them. Canadian mining disclosure standards differ from the requirements of the SEC under SEC Industry Guide 7, and reserve and resource information referenced in this Form 10-Q may not be comparable to similar information disclosed by companies reporting under U.S. standards. In particular, and without limiting the generality of the foregoing, the term resource does not equate to the term reserve. Under United States standards, mineralization may not be classified as a reserve unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. The SEC's disclosure standards normally do not permit the inclusion of information concerning measured mineral resources or indicated mineral resources or other descriptions of the amount of mineralization in mineral deposits that do not constitute reserves by U.S. standards in documents filed with the SEC. Disclosure of contained ounces in a resource estimate is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute reserves by SEC standards as tonnage and grade without reference to unit measures. The requirements of NI 43-101 for identification of reserves are also not the same as those of the SEC, and reserves in compliance with NI 43-101 may not qualify as reserves under SEC standards.

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## Cautionary Note Regarding Forward-Looking Statements

Certain statements made in this Quarterly Report on Form 10-Q may constitute forward-looking statements about the Company and its business. Forward looking statements are statements that are not historical facts and include, but are not limited to, reserve and resource estimates, estimated value of the project, projected investment returns, anticipated mining and processing methods for the project, the estimated economics of the project, anticipated Scandium recoveries, production rates, Scandium grades, estimated capital costs, operating cash costs and total production costs, planned additional processing work and environmental permitting. The forward-looking statements in this report are subject to various risks, uncertainties and other factors that could cause the Company's actual results or achievements to differ materially from those expressed in or implied by forward looking statements. These risks, uncertainties and other factors include, without limitation, risks related to uncertainty in the demand for Scandium and pricing assumptions; uncertainties related to raising sufficient financing to fund the Nyngan Scandium Project in a timely manner and on acceptable terms; changes in planned work resulting from logistical, technical or other factors; the possibility that results of work will not fulfill expectations and realize the perceived potential of the Company's properties; uncertainties involved in the estimation of Scandium reserves and resources; the possibility that required permits may not be obtained on a timely manner or at all; the possibility that capital and operating costs may be higher than currently estimated and may preclude commercial development or render operations uneconomic; the possibility that the estimated recovery rates may not be achieved; risk of accidents, equipment breakdowns and labor disputes or other unanticipated difficulties or interruptions; the possibility of cost overruns or unanticipated expenses in the work program; risks related to projected project economics, recovery rates, and estimated NPV and anticipated IRR and other factors identified in the Company's SEC filings and its filings with Canadian securities regulatory authorities. Forward-looking statements are based on the beliefs, opinions and expectations of the Company's management at the time they are made, and other than as required by applicable securities laws, the Company does not assume any obligation to update its forward-looking statements if those beliefs, opinions or expectations, or other circumstances, should change.

## Scandium International Corporate Overview

Scandium International is a specialty metals and alloys company focused on developing the markets, production and sales of scandium and other specialty metals. The Company intends to utilize its knowhow and, in certain instances, patented technologies to maximize opportunities in scandium and other specialty metals.

The Company was formed in 2006, under the name Golden Predator Mines Inc. As part of a reorganization and spin-out of the Company's precious metals portfolio in March 2009, the Company changed its name to EMC Metals Corp. In order to reflect our emphasis on mining for scandium minerals, effective November 19, 2014, we changed our name to Scandium International Mining Corp. The Company currently trades on the Toronto Stock Exchange under the symbol **SCY**.

Our focus of operations is the exploration and development of the Nyngan scandium deposit located in New South Wales ( NSW ), Australia ( Nyngan or the Nyngan Scandium Project ). We also hold exploration stage properties in Australia, known as the Honeybugle Scandium Property , and in Finland, known as the Kiviniemi Scandium Property .

We acquired a 100% interest in the Nyngan Scandium Project in June of 2014 pursuant to the terms of a settlement agreement with Jervois Mining Ltd. of Melbourne, Australia. The project is held through our Australian subsidiary, EMC Metals Australia Pty Ltd. ( EMC Australia ), which also holds the Honeybugle Scandium Property.

During Q3 of 2015, the Company converted a \$2,500,000 loan from Scandium Investments LLC ( SIL ), an unrelated investment company, into a 20% minority interest in EMC Australia. As a result, from Q3 2015 until October 2017, the Company held an 80% equity interest in EMC Australia, with SIL holding a 20% interest. EMC Australia was operated as a joint venture between SIL and SCY with SIL holding a carried interest in the Nyngan Scandium Project until the Company met certain development milestones. The Company completed the development milestones during

May 2017 and triggered a limited period option whereby SIL had a right to convert the fair market value of its 20% interest in EMC Australia into an equivalent value of SCY common shares, at then prevailing market prices.

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In June of 2017, the Company entered into a share exchange agreement with SIL for the purchase of SIL's 20% interest in EMC Australia in exchange for 57,371,565 common shares of SCY as well as an additional 1,459,080 common shares as a royalty adjustment payment. Closing of the purchase of the EMC Australia shares was subject to shareholder approval, which the Company obtained at a special meeting of shareholders held on September 11, 2017. The transaction subsequently closed on October 9, 2017. Under the terms of the share purchase agreement, on closing SIL was granted the right to nominate two individuals to the board of the Company for so long as held at SIL held at least 15% of Scandium's issued and outstanding shares, and one director for so long as they held at least 5% but less than 15% of Scandium's issued and outstanding shares. Pursuant to the nomination rights, Peter Evensen and R. Christian Evensen were appointed as directors to the SCY Board on closing of the transaction.

During the third quarter of 2018, we focused on Nyngan Scandium Project activities including scandium marketing arrangements.

### **Principal Properties Review**

#### **Nyngan Scandium Project (NSW, Australia)**

##### **Nyngan Property Description and Location**

The Nyngan Scandium Project site is located approximately 450 kilometers northwest of Sydney, NSW, Australia and approximately 20 kilometres due west of the town of Nyngan, a rural town of approximately 2,900 people. The general area can be characterized as flat countryside and is classified as agricultural land, used predominantly for wheat farming and livestock grazing.

The specific location of the exploration licenses that we may earn an interest in are provided in Figure 2 below.

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**Figure 1: Location of Nyngan Project**



**Figure 2: Location of the Exploration Licenses and Mining Lease for the Nyngan Scandium Project**



## **Nyngan Feasibility Study**

On April 18, 2016 the Company announced the results of an independently prepared feasibility study on the Nyngan Scandium Project. The technical report on the feasibility study entitled *Feasibility Study Nyngan Scandium Project, Bogan Shire, NSW, Australia* is dated May 4, 2016 and was independently compiled pursuant to the requirements of NI 43-101 (the Feasibility Study). The report was filed on May 6, 2016 and is available on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Company's website ([www.scandiummining.com](http://www.scandiummining.com)) and the SEC's website ([www.sec.gov](http://www.sec.gov)). A full discussion on the technical report was provided in the Company's Form 10Q for the quarterly period ending March 31, 2016, as filed with the SEC and on SEDAR on May 13, 2016.

The Feasibility Study concluded that the Nyngan Scandium Project has the potential to produce an average of 37,690 kilograms of scandium oxide (scandia) per year, at grades of 98.0% -99.8%, generating an after tax cumulative cash flow over a 20 year Project life of US\$629 million, with an NPV<sup>10%</sup> of US\$177 million. The average process plant feed grade over the 20 year Project life is 409ppm of scandium.

The financial results of the Feasibility Study are based on a conventional flow sheet, employing continuous high pressure acid leach (HPAL) and solvent extraction (SX) techniques. The flow sheet was modeled and validated from METSIM modeling and considerable bench scale/pilot scale metallurgical test work utilising Nyngan resource material. A number of the key elements of this flowsheet work have been protected by the Company under US Patent Applications.

The Feasibility Study was developed and compiled to an accuracy level of +15%/-5%, by a globally recognized engineering firm that has considerable expertise in laterite deposits and process facilities, as well as in smaller mining and processing projects, and has excellent familiarity with the Nyngan Scandium Project location and environment.

### ***Nyngan Scandium Project Highlights***

- Capital cost estimate for the Project is US\$87.1 million,
- Annual scandium oxide product volume averages 37,690 kg per year, over 20 years,
- Annual revenue of US\$75.4 million (oxide price assumption of US\$2,000/kg),
- Operating cost estimate for the Project is US\$557/kg scandium oxide,
- Project Constant Dollar NPV<sup>10%</sup> is US\$177 million, (NPV<sup>8%</sup> is US\$225 million),
- Project Constant Dollar IRR is 33.1%,
- Oxide product grades of 98-99.8%, as based on customer requirements,
- Project resource was increased by 40% to 16.9 million tonnes, grading 235ppm Sc, at a 100ppm cut-off in the measured and indicated categories, and
- Project Reserve totalling 1.43 million tonnes, grading 409ppm Sc was established on part of the resource.

### ***DFS Conclusions and Recommendations***

The production assumptions in the Feasibility Study are backed by solid independent flow sheet test work on the planned process for scandium recovery. The Feasibility Study consolidates a significant amount of metallurgical test work and prior study on the Nyngan Scandium Project, including important test work results completed since the Preliminary Economic Assessment (PEA) was generated in 2014. The entire body of work demonstrates a viable, conventional process flow sheet utilizing a continuous-system HPAL leaching process, and good metallurgical recoveries of scandium from the resource. The metallurgical assumptions are supported by various bench and pilot scale independent test work programs that are consistent with known outcomes in other laterite resources. The continuous autoclave configuration, as opposed to batch systems explored in previous flow sheets, is also a more conventional and current design choice.

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The level of accuracy established in the Feasibility Study substantially reduces the uncertainty levels inherent in earlier studies, specifically the PEA. The greater confidence intervals around the Feasibility Study were achieved by reliance on significant project engineering work, a capital and operating cost estimate supported by detailed requirements and vendor pricing, plus one offtake agreement and an independent marketing assessment, both supportive of the marketing assumptions on the business.

The Feasibility Study delivered a positive result on the Nyngan Scandium Project, and recommends the Nyngan Scandium Project owners seek finance and proceed to construction. Recommendations were made therein for additional immediate work, notably to win additional offtake agreements with customers, complete some optimizing flow sheet studies, and to initiate as early as possible detailed engineering required on certain long-lead capital items.

### ***Confirmatory Metallurgical Test Results***

On June 29, 2016, we announced the results of a confirmatory metallurgical test work report from Altrius Engineering Services (AES) of Brisbane, Australia. The test work results directly relate to the list of recommended programs included in the Feasibility Study. AES devised and supervised these test work programs at the SGS laboratory in Perth, Australia and at the Nagrom laboratory in Brisbane, Australia.

The project DFS recommended a number of process flowsheet test work programs be investigated prior to commencing detailed engineering and construction. Those study areas included pressure leach ( HPAL ), counter-current decant circuits, solvent extraction ( SX ), and oxalate precipitation, with specific work steps suggested in each area. This latest test work program addresses all of these recommended areas, and the results confirm recoveries and efficiencies that either meet or exceed the parameters used in the DFS. Highlights of the testing are:

- Pressure leach test work achieved 88% recoveries, from larger volume tests,
- Settling characteristics of leach discharge slurry show substantial improvement,
- Residue neutralization work meets or exceeds all environmental requirements as presented in the DFS and the environmental impact statement,
- Solvent extraction circuit optimization tests generated improved performance, exceeding 99% recovery in single pass systems, and
- Product finish circuits produced 99.8% scandium oxide, completing the recovery process from Nyngan ore to finished scandia product.

### ***Engineering, Procurement and Construction Management Contract***

On May 30, 2017, the Company announced that its subsidiary EMC Australia signed an Engineering, Procurement and Construction Management ("EPCM") contract with Lycopodium Minerals Pty Ltd ("Lycopodium"), to build the Nyngan Scandium Project in New South Wales, Australia. The EPCM contract also provides for start-up and commissioning services.

The EPCM contract appoints Lycopodium (Brisbane, QLD, Australia) to manage all aspects of project construction. Lycopodium is the principal engineering firm involved with the DFS. Lycopodium's continued involvement in project construction and commissioning ensures valuable technical and management continuity for the project during the construction and start-up of the project.

On October 19, 2017, we announced that Lycopodium was instructed to initiate critical path engineering for the Nyngan Scandium Project. Lycopodium will commence work immediately on select critical path components for the project, including design and specification engineering on the high-pressure autoclave unit, associated flash and splash vessels and several specialized high-pressure input pumps. This engineering work will enable final supplier selection, firm component pricing and delivery dates for these key process components. This work has now been completed and awaits final investment decision (FID).



***Environmental Permitting/Development Consent/Mining Lease***

On May 2, 2016, the Company announced the filing of an Environmental Impact Statement ( EIS ) with the New South Wales, Australia, Department of Planning and Environment, (the Department ) in support of the planned development of the Nyngan Scandium Project. The EIS was prepared by R.W. Corkery & Co. Pty. Limited, on behalf of the Company's subsidiary, EMC Australia, to support an application for Development Consent for the Nyngan Scandium Project. The EIS is a complete document, including a Specialist Consultants Study Compendium, and was submitted to the Department on Friday, April 29, 2016.

**EIS Highlights:**

The EIS finds residual environmental impacts represent negligible risk.

The proposed development design achieves sustainable environmental outcomes.

The EIS finds net-positive social and economic outcomes for the community.

Nine independent environmental consulting groups conducted analysis over five years and contributed report findings to the EIS.

The Nyngan Project development is estimated to contribute A\$12.4M to the local and regional economies, and A\$39M to the State and Federal economies, annually

The EIS is fully aligned with the DFS and with a NSW Mining License Application for the Nyngan Project.

**Conclusion statement in the EIS:**

In light of the conclusions included throughout this *Environmental Impact Statement*, it is assessed that the Proposal could be constructed and operated in a manner that would satisfy all relevant statutory goals and criteria, environmental objectives and reasonable community expectations.

**EIS, Development Consent, Mining Lease:**

The EIS is the foundation document submitted by a developer intending to build a mine facility in Australia. The Nyngan Scandium Project is considered a State Significant Project, in that capital cost exceeds A\$30 million, which means State agencies are designated to manage the investigation and approval process for granting a Development Consent, from the Minister of Planning and Environment. This Department will manage the review of the Proposal through a number of State and local governmental agencies.

The EIS is a self-contained set of documents used to seek a Development Consent. It is however, supported in many ways by the recently completed feasibility study.

On November 10, 2016, the Company announced that the Development Consent had been granted. This Development Consent represents an approval to develop the Nyngan Scandium Project and is based on the EIS. The Development Consent follows an in-depth review of the EIS, the project plan, community impact studies, public EIS exhibition and commentary, and economic viability, and involved more than 12 specialized governmental agencies and groups.

During May 2017, EMC Australia received notice of approval for its Mining Lease application. The Mining Lease ( ML ) overlays select areas previously covered by two Exploration Licenses. The ML represents the final major development approval required from the NSW Government to begin construction on the project. The ML is awarded after all environmental work has been completed and reviewed, all social implications of project development have been considered, and the NSW Environmental Minister has issued a Development Consent, which was received earlier, in November 2016. The ML grant reflects the further review that the State resource value has been considered and approved for extraction based on mine development plans. The ML is issued for a period of 21 years, and is based on the development plans and intent submitted in the ML Application. The ML can be modified by NSW regulatory agencies, as requested by EMC Australia over time, to reflect changing operating conditions.





In addition to these two key governmental approvals, other required licenses and permits must be acquired but are considered routine and require only compliance with fixed standards and objective measurements. These remaining approvals include submittal of numerous plans and reports supporting compliance with Development Consent and Mining Lease. In addition, the following water, roads, dam and electrical access reviews and arrangements must be finalized:

Water Supply Works and Use Approval and Water Access License,  
State and local approval for construction of the intersection of the Site Access Road and Gilgai Road,  
An approval from the NSW Dams Safety Committee for the design and construction of the Residue Storage Facility, and  
A high voltage connection agreement with Essential Energy.

The Company intends to continue to follow and support the progress of governmental agency reviews.

### **Downstream Scandium Products**

In February 2011, we announced results of a series of laboratory-scale tests investigating the production of aluminum-scandium master alloys directly from aluminum oxide and scandium oxide feed materials, prepared by the Commonwealth Scientific and Industrial Research Organisation ( CSIRO ). The overall objective of this research was to demonstrate and commercialize the production of aluminum-scandium master alloy using impure scandium oxide, sourced from third parties, as the scandium feedstock, potentially significantly improving the economics of aluminum-scandium master alloy production. In 2014, the Company announced it applied for a US Patent on master alloy production, which is still in the application phase. That patent application addressed scandium master alloys with both aluminum-base and magnesium-base metals. The application has been modified several times and remains in the application stage at this time.

During the 2015-2017 timeframe, we continued our own internal laboratory-scale investigations into the production of aluminum-scandium master alloys, furthering our understanding of commercial processes, and achievable recoveries. We advanced our abilities to make a standard-grade 2% scandium master alloy product typical of commercially available products offered today.

On March 2, 2017, we announced the signing of a Memorandum of Understanding ("MOU") with Weston Aluminium Pty Ltd ("Weston") of Chatswood, NSW, Australia. The MOU defines a cooperative commercial alliance to jointly develop the capability to manufacture aluminum-scandium master alloy. The intended outcome of this alliance will be to develop the capability to offer Nyngan Scandium Project aluminum alloy customers scandium in form of Al-Sc master alloy, should customers prefer that product form.

The MOU outlines steps to jointly establish the manufacturing parameters, metallurgical processes, and capital requirements to convert Nyngan Scandium Project scandium product into master alloy, on Weston's existing production site in NSW. The MOU does not include a binding contract with commercial terms at this stage, although the intent is to pursue the necessary technical elements to arrive at a commercial contract for conversion of scandium oxide to master alloy, and to do so prior to first mine production from the Nyngan Scandium Project.

**Master Alloy Pilot Scale Program, New Patent Applications:** On March 5, 2018, the Company announced the initiation of a pilot scale program (the Pilot Program ) at the ALCERECO Inc. metallurgical research facilities in Kingston, Ontario, to confirm and refine previous work on the manufacture of aluminum-scandium 2% master alloy ( MA ). The Pilot Program is intended to confirm the previous bench-scale test work, and to provide necessary process understanding for commercial scale upgrade of Nyngan scandium oxide product to master alloy product.

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The Company also announced that it has filed for patent protection on certain process refinements for master alloy manufacture that it believes are novel methods, and also on certain product variants that it believes represent novel forms of introducing scandium more directly into aluminum alloys. The Pilot Program began in March 2018 and is expected to be completed in late 2018.

Highlights:

SCY successfully made Al-Sc 2% master alloy at bench scale in Australia in 2017,  
Process recoveries reached 90% on the bench scale process test work,  
Pilot scale master alloy manufacturing process test work initiated now,  
Novel product variants have been invented, to introduce scandium directly into aluminum, bypassing the MA product step, with higher process recoveries, and  
US patent applications have been filed to protect novel processes and inventions.

The Company initiated work to understand master alloy manufacture from scandium oxide in early 2017, at Nagrom Brisbane Labs, in QLD, Australia. We conducted laboratory test work at Nagrom to confirm that metallurgical grade (2%) Al-Sc master alloy could be manufactured, that process steps and reagents were understood, and that commercially acceptable scandium recoveries to MA product were possible. These goals were achieved by Q4 2017. No work was done at this stage on recovery/recycle of scandium process losses to the waste product (dross) formed in the process, although we have identified several potential paths to readily achieve this recovery.

Separately from the conventional MA process investigations, additional work at Nagrom explored novel methods of packaging scandium oxide into a product form that could be added directly into molten aluminum, bypassing the master alloy step for the ultimate manufacture of finished aluminum alloys containing scandium. This work was also successful, generating high recoveries of scandium into final aluminum alloys.

The Pilot Program now being conducted will increase the scale of the processes and perform further confirmatory test work results to the work done in 2017. The Pilot Program will consist of five separate trials on the two product types, production of MA in various forms, and dross analysis to ascertain scandium recoveries to product. The total mass of master alloy and product variants produced in the program is planned at 20kg. The program will also include subsequent efficacy testing against commercially purchased master alloy in the manufacture of aluminum alloys.

The Pilot Program will also include test work on scandium recovery from dross produced in the manufacture of the master alloys. This data will allow the company to further reduce MA conversion costs.

Patent applications have been filed with the US Patent Office on both master alloy process techniques and separately on novel product inventions for direct scandium additions.

The Company intends to explore customer interest in the direct addition scandium product, and it believes that the product may well be preferred by smaller batch aluminum alloy manufacturers, or by certain manufacturers who mix their own custom alloys to suit their specific product applications.

### **Offtake Agreements and Letters Of Intent**

The Company is in the process of obtaining sales agreements for scandium products produced from our Nyngan Scandium Project. Our focus is on the use of scandium as an alloying ingredient in aluminum based products. Scandium as an alloying agent in aluminum allows for aluminum metal products that are much stronger, more easily weldable and exhibit improved performance at higher temperatures than current aluminum-based materials. This means lighter structures, lower manufacturing costs and improved performance in product areas that aluminum alloys do not currently compete. Our scandium products for sale include both scandium oxide and scandium master alloy materials.



## ***ALCERECO***

In 2015, the Company entered into a memorandum of understanding ( MOU ) with ALCERECO Inc. of Kingston, Ontario ( ALCERECO ), forming a strategic alliance to develop markets and applications for aluminum alloys containing scandium. To further that alliance, and to reinforce the capability of both companies to deliver products developed for scandium aluminum alloy markets, Scandium International and ALCERECO also signed an offtake agreement governing sales terms of scandium oxide product (scandia) produced from the Nyngan Scandium Project. The offtake agreement specifies prices, delivery volumes and timeframes for commencement of delivery of scandium oxide product. The offtake agreement does not provide for a mandatory annual minimum purchase volume of scandium oxide by ALCERECO, and there is no requirement for payment in lieu of purchase.

The MOU represented keen mutual interest in foundry-based test work on aluminum alloys containing scandium, based on understandings that ALCERECO s team had gained from prior work with Alcan Aluminum, and based on SCY s twin goals of understanding and identifying quality applications for scandium, and also understanding the scandium value proposition with customers.

During December 2017, the Company revised and renewed the scandium product offtake agreement with ALCERECO. The revised agreement extends the deadline for initial production and shipments from the Nyngan Scandium Project from December 1, 2017, to as late as December 1, 2020. The defined sale product was changed to an aluminum scandium 2% master alloy from scandium oxide in the prior agreement. The revised sales agreement covers approximately the same scandium oxide volume as the prior agreement, representing 55% of Nyngan s initial twelve month forecast production, and approximately 20% of nameplate capacity, as established by the Definitive Feasibility Study. The revised offtake agreement does not provide for a mandatory annual minimum purchase volume of scandium oxide by ALCERECO, and there is no requirement for payment in lieu of purchase.

The Company has sponsored research work as contemplated by the MOU with ALCERECO and with two other unrelated entities in separate locations. This work develops and documents the improvement in strength characteristics scandium can deliver to aluminum alloys without degrading other key properties. The team has run multiple alloy mix programs where scandium loading is varied, in order to look at response to scandium additions on a cost/benefit basis. This work has been done in the context of industries and applications where these particular alloys are popular today.

These programs are focused on 3 Series, 5 Series and 7 Series Al-Sc alloys, and have served to make independent data and volume samples available for sales efforts.

The results of our research work are positive, and consistent with the body of published literature available today on aluminum scandium alloys. We are observing noteworthy strengthening effects with scandium additions above 0.1%, and dramatic strengthening improvements with additions of 0.35%, while preserving or enhancing other alloy properties and characteristics. We have also demonstrated that altering the combinations of scandium loads and alloy hardening process techniques has significant effect on the final alloy properties, offering the opportunity to tune alloy characteristics to suit specific applications.

## ***Letters of Intent***

During 2018 (three fiscal quarters), the Company announced signing Letter Of Intent ( LOI ) agreements with seven unrelated partnering entities. In each agreement we have agreed to contribute either scandium master alloy product, or aluminum-scandium alloy product for trial testing by the partners in their downstream manufacturing applications. In each LOI, the parties have agreed to disclose to us the parameters and general results of the testing program utilizing these scandium-containing alloys, upon completion of testing.

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These formal LOIs, with distinct industry segment leaders, represent a key marketing program demonstrating precisely how scandium will perform in specific products, and in production-specific environments. Potential scandium customers insist on these sample testing opportunities, directly in their research facilities or on their shop floor, to ensure their full understanding of the impacts, benefits, and costing implications of introducing scandium into their traditional aluminum feedstocks.

The counterparties in these LOIs are specifically:

Gränges AB ( Gränges ), based in Stockholm, Sweden. Gränges, a public company, traded on the NASDAQ Stockholm Stock Exchange (GRNG:OMX), and a large global player in the rolled aluminum products business, with production assets in Europe, USA, and China, and a worldwide customer base, majority concentrated in the USA. Gränges is focused on advanced aluminum materials, and holds a leading global position in rolled products for brazed heat exchangers, which it estimates at 20%. The brazed heat exchanger market has traditionally been centered in automotive applications, but is increasingly also now being applied to stationary heat exchanger (HVAC) solutions as well.

Ohm & Häner Metallwerk GmbH & Co. GK ( O&H ), based in Olpe, Germany. O&H is a privately held manufacturer of sand cast and gravity die cast parts, using metal alloys, servicing a significant, global customer base. O&H produces over 3,000 individual cast parts, and currently works with over 40 different alloys, primarily aluminum and copper-based, customized to individual process, unique pieces and heavy castings for special applications. The cast aluminum alloys segment represents roughly 30% of the global aluminum alloy market today.

AML Technologies ( AML ), an Adelaide, Australia based start-up company with proprietary technology for applying aluminum alloys to additive layer manufacturing processes, also commonly referred to as 3D printing. AML Technologies is commercializing a 3D printing process designed to operate at a speed that will enable manufacture of medium to relatively large engineered metal parts and structures at low cost.

Grainger & Worrall Ltd. ( GW ), based in Shropshire, UK. GW is a privately held manufacturer of precision sand cast parts, and engineering services, using both aluminum and steel alloys, servicing a significant global customer base. GW specializes in low to intermediate volume cast parts for commercial automotive, motorsports/racing, defense, marine, and aerospace applications. A number of the world's most renowned automotive marques rely on GW for their high-performance drivetrain and structural castings. Aluminum-scandium alloys should be specifically suited to high-heat applications, aligning well with GW's specialized focus on automotive engine and powertrain applications.

Eck Industries Inc. ( ECK ), based in Manitowoc, Wisconsin, USA, is a privately held manufacturer of precision sand cast parts, and engineering services, using both aluminum and steel alloys, servicing a significant, global customer base. Customer segments include commercial aircraft parts, automotive and trucking cast parts, military drivetrain casings, marine propulsion system castings, and military aerospace components. Eck Industries is known in the casting industry as an innovator. They employ over seven different molding techniques and work with multiple aluminum alloy types: Scandium additions could potentially play a valuable role in any of the alloy types.

Impression Technologies Ltd. ("ITL"), based in Coventry, UK, is a privately held technology company, developing and licensing its advanced aluminum sheet forming technology, Hot Form Quench ("HFQ®"), to automotive, aerospace, rail and electronics industries, globally. ITL also manufactures custom parts for customers with its patented HFQ® technology, which enables the single-pass forming of complex, lightweight, high-strength aluminum parts that can't otherwise be similarly formed today.

PAB Coventry Ltd. ( PAB ), located in Coventry, UK, is a privately held manufacturing and prototyping company offering specialty metal parts and design capabilities, serving the automotive, aerospace, defense and HVAC industries. PAB has been a well-known parts and forms supplier to the upper market segment of the British automotive industry for decades.



***Marketing Strategy***

The LOI agreements are part of a marketing strategy by the Company to pick innovative, research-capable partners, willing to test scandium in their applications. The marketing strategy includes similar agreements with other research capable partners, but who do not wish to be publically named. We are selecting and approaching specific partners because we have an understanding, from our commissioned alloy mixing programs, that scandium additions can make value-added contributions to their specific products, and we have the alloy samples to make a fast start on that validation. The Company plans to do more of these programs, application-specific, in pursuit of sales contracts with quality customers across numerous industry segments, predominantly existing aluminum alloy consumers.

***Nyngan Scandium Project - Planned Activities for 2018-2019***

The following steps are planned for Nyngan during the 2018 and 2019 calendar years:

- Pursue additional LOI Agreements with potential future customers for scandium products who pledge to utilize scandium product samples in their production facilities,
- Pursue additional offtake agreements in support of planned future scandium sales,
- Seek project financing in mid-2019 to fund the construction of the Nyngan Scandium Project,
- Commence site construction in the second half of 2019, post financing, with anticipated constructi