

SCANDIUM INTERNATIONAL MINING CORP.  
Form 10-Q  
August 08, 2017

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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 **June 30, 2017**

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  No

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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 [  ]

Indicate by check mark whether the registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act.

Yes [  ]      No [  ]

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

**As of August 8, 2017, the registrant's outstanding common stock consisted of 233,139,594 shares.**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**SIX MONTHS AND QUARTER ENDED JUNE 30, 2017**

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

<b>As at:</b>	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,128,215	\$ 615,234
Prepaid expenses and receivables	33,513	51,227
<b>Total Current Assets</b>	<b>1,161,728</b>	<b>666,461</b>
<b>Equipment</b> (Note 3)	<b>2,263</b>	<b>2,918</b>
<b>Mineral property interests</b> (Note 4)	<b>704,053</b>	<b>704,053</b>
<b>Total Assets</b>	<b>\$ 1,868,044</b>	<b>\$ 1,373,432</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 37,004	\$ 27,649
Accounts payable with related parties (Note 5)	-	13,704
Financing received in advance (Note 10)	752,320	-
<b>Total Liabilities</b>	<b>789,324</b>	<b>41,353</b>
<b>Stockholders Equity</b>		
Capital stock (Note 6) (Authorized: Unlimited number of common shares; Issued and outstanding: 229,486,261 (2016 225,047,200))	91,813,255	91,142,335
Treasury stock (Note 7) (1,033,333 common shares) (2016 1,033,333)	(1,264,194)	(1,264,194)
Additional paid in capital (Note 6)	7,785,801	6,844,671
Accumulated other comprehensive loss	(853,400)	(853,400)
Deficit	(95,264,679)	(93,446,610)
<b>Total Stockholders Equity</b>	<b>2,216,783</b>	<b>2,422,802</b>
<b>Non-controlling Interest in a Subsidiary</b> (Note 9)	<b>(1,138,063)</b>	<b>(1,090,723)</b>
<b>Total Equity</b>	<b>1,078,720</b>	<b>1,332,079</b>
<b>Total Liabilities and Equity</b>	<b>\$ 1,868,044</b>	<b>\$ 1,373,432</b>

Nature and continuance of operations (Note 1)

Subsequent events (Note 10)

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 June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
<b>EXPENSES</b>				
Amortization (Note 3)	\$ 380	\$ 1,116	\$ 655	\$
Consulting	47,067	32,933	73,467	
Exploration	129,814	304,499	144,339	
General and administrative	62,442	30,000	120,864	
Insurance	7,136	8,478	14,327	
Professional fees	38,397	42,033	41,042	
Salaries and benefits	155,184	116,086	306,827	
Stock-based compensation (Note 6)	81,939	22,047	1,157,907	
Travel and entertainment	21,480	12,049	43,157	
	(543,839)	(569,241)	(1,902,585)	
Foreign exchange gain	16,714	894	37,176	
<b>Loss and comprehensive loss for the period</b>	<b>(527,125)</b>	<b>(568,347)</b>	<b>(1,865,409)</b>	
<b>Costs allocable to non-controlling interest in a subsidiary</b>	<b>36,822</b>	<b>72,229</b>	<b>47,340</b>	
<b>Loss and comprehensive loss for the period attributable to Scandium International Mining Corp.</b>	<b>\$ (490,303)</b>	<b>\$ (496,118)</b>	<b>\$ (1,818,069)</b>	
<b>Basic and diluted loss and comprehensive loss per common share attributable to Scandium International Mining Corp.</b>	<b>\$ ( 0.00)</b>	<b>\$ ( 0.00)</b>	<b>\$ ( 0.01)</b>	
<b>Weighted average number of common shares outstanding</b>	<b>229,425,162</b>	<b>225,047,200</b>	<b>227,869,722</b>	

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)

6-month period ended	June 30, 2017	June 30, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (1,865,409)	\$ (1,748,603)
Items not affecting cash:		
Amortization	655	2,180
Stock-based compensation	1,157,907	417,860
Changes in non-cash working capital items:		
Decrease in prepaids and receivables	17,714	68,466
Decrease in accounts payable, accrued liabilities and accounts payable with related parties	(4,349)	(149,208)
	(693,482)	(1,409,305)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to fixed assets	-	(3,157)
	-	(3,157)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Common shares issued	261,375	-
Options exercised for common shares	192,768	-
Financing received in advance	752,320	-
	1,206,463	-
<b>Change in cash during the period</b>	512,981	(1,412,462)
<b>Cash, beginning of period</b>	615,234	2,249,676
<b>Cash, end of period</b>	\$ 1,128,215	\$ 837,214
	<b>2017</b>	<b>2016</b>
<b>Cash paid during the 6 month period for interest</b>	\$ -	\$ -
<b>Cash paid during the 6 month period for taxes</b>	\$ -	\$ -

There were no significant non-cash investing and financing activities during the six month periods ended June 30, 2017 and 2016.

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	Deficit	Stoc E
<b>Balance, December 31, 2015</b>	<b>225,047,200</b>	<b>\$ 91,142,335</b>	<b>\$ 6,375,237</b>	<b>\$ (1,264,194)</b>	<b>(853,400)</b>	<b>(91,338,182)</b>	<b>4</b>
Stock-based compensation	-	-	469,434	-	-	-	-
Loss for the year	-	-	-	-	-	(2,108,428)	(2)
<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>(93,446,610)</b>	<b>2</b>
Private placement	1,179,061	261,375	-	-	-	-	-
Options exercised	3,260,000	409,545	(216,777)	-	-	-	-
Stock-based compensation	-	-	1,157,907	-	-	-	1
Loss for the period	-	-	-	-	-	(1,818,069)	(1)
<b>Balance, June 30, 2017</b>	<b>229,486,261</b>	<b>\$ 91,813,255</b>	<b>\$ 7,785,801</b>	<b>\$ (1,264,194)</b>	<b>(853,400)</b>	<b>(95,264,679)</b>	<b>2</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

June 30, 2017

(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, 2016 and with our Annual Report on Form 10-K filed with the SEC on March 16, 2017. Operating results for the six-month period ended June 30, 2017 may not necessarily be indicative of the results for the year ending December 31, 2017.

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, EMC Metals USA Inc., Wolfram Jack Mining Corp., and The Technology Store, Inc. Non-controlling interest represents the minority shareholders' 20% proportionate share of the net assets and



results of the Company's majority-owned Australian subsidiary, EMC Metals Australia Pty Ltd., from the date the 20% interest was disposed by the Company (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 a mining lease for its Nyngan Scandium project from the Mines Department of New South Wales, Australia, 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

June 30, 2017

(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 June 30, 2017, 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:

	<b>June 30, 2017</b>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Assets:				
Cash	\$ 1,128,215	\$ 1,128,215	\$	\$
Total	\$ 1,128,215	\$ 1,128,215	\$	\$

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 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 is currently evaluating the impact this guidance will have on its 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 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.

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 is reviewing this update to determine the impact it may have on its financial statements.

**Scandium International Mining Corp.**

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(Expressed in US Dollars) (Unaudited)

**3. EQUIPMENT**

	December 31, 2016 Net Book Value	Additions (disposals)  (write-offs)	Amortization	June 30, 2017 Net Book Value
Computer equipment	\$ 2,918	\$ -	\$ (655)	\$ 2,263
	December 31, 2015 Net Book Value	Additions (disposals)  (write-offs)	Amortization	December 31, 2016 Net Book Value
Computer equipment	\$ 1,017	\$ 3,157	\$ (1,256)	\$ 2,918
Office equipment	1,594	-	(1,594)	-
	\$ 2,611	\$ 3,157	\$ (2,850)	\$ 2,918

**4. MINERAL PROPERTY INTERESTS**

June 30, 2017	Scandium and other
<b>Acquisition costs</b>	
<b>Balance, December 31, 2016</b>	\$ 704,053
Additions	-
<b>Balance June 30, 2017</b>	\$ 704,053

December 31, 2016	Scandium and other
<b>Acquisition costs</b>	
<b>Balance, December 31, 2015</b>	\$ 942,723
<b>Write-off of Tordal property</b>	(238,670)
<b>Balance December 31, 2016</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 80% interest in its Australian subsidiary which holds title to the Nyngan property (Note 9 & 10).

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 to Jervois 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 80% interest in its Australian subsidiary which holds title to the Honeybugle properties (Note 9).

### *Tørdal property, Norway*

In December 2016, it was decided to write-off the Company's interest, \$238,670, in the Tordal property.

**Scandium International Mining Corp.**

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(Expressed in US Dollars) (Unaudited)

**5. RELATED PARTY TRANSACTIONS**

During the 6-month period ended June 30, 2017, the Company expensed \$841,930 for stock-based compensation for stock options issued to Company directors. During the 6-month period ended June 30, 2016, the Company expensed \$334,129 for stock-based compensation for stock options issued to Company directors.

During the 6-month period ended June 30, 2017, the Company paid a consulting fee of \$51,000 to one of its directors. During the 6-month period ended June 30, 2016, the Company paid a consulting fee of \$51,000 to one of its directors.

As at June 30, 2017, the Company owed \$Nil to various directors and officers of the Company. (December 31, 2016 - \$13,704)

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

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, 2015	17,610,000	\$ 0.12
Granted	5,260,000	0.14
Exercised	(1,050,000)	0.24
Outstanding, December 31, 2016	21,820,000	0.11
Granted	5,350,000	0.38
Exercised	(3,260,000)	0.08
Expired	(125,000)	0.08
Outstanding, June 30, 2017	23,785,000	\$ 0.18

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Number currently exercisable 22,496,000 \$ 0.17

As at June 30, 2017, incentive stock options were outstanding as follows:

	Number of Options Outstanding	Number of Options Exercisable	Exercise Price in Canadian \$	Expiry Date
<b>Options</b>				
	50,000	50,000	0.120	July 25, 2017*
	400,000	400,000	0.070	August 8, 2017
	1,000,000	1,000,000	0.100	May 9, 2018
	3,375,000	3,375,000	0.120	July 25, 2019
	200,000	200,000	0.100	December 30, 2019
	3,450,000	3,450,000	0.140	April 17, 2020
	400,000	400,000	0.115	August 28, 2020
	4,300,000	4,300,000	0.100	November 5, 2020
	4,860,000	4,711,000	0.130	February 8, 2021
	400,000	240,000	0.200	June 14, 2021
	5,100,000	4,120,000	0.370	February 21, 2022
	250,000	250,000	0.600	May 11, 2020
	23,785,000	22,496,000		

\* 25,000 of these options were exercised prior to July 25, 2017 while the remaining 25,000 expired unexercised.

**Scandium International Mining Corp.**

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(Expressed in US Dollars) (Unaudited)

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

As at June 30, 2017 the Company's outstanding and exercisable stock options have an aggregate intrinsic value of \$2,791,028 (December 31, 2016 - \$922,412).

**Stock-based compensation**

During the 6-month period ended June 30, 2017, the Company recognized stock-based compensation of \$1,157,907 (June 30, 2016 - \$417,860) 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 5,350,000 stock options issued during the 6-month period ended June 30, 2017 (June 30, 2016 - 5,260,000).

The weighted average fair value of the options granted in the period was C\$0.32 (2016 - C\$0.12).

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:

	2017	2016
Risk-free interest rate	1.48%	1.13%
Expected life	5 years	5 years
Volatility	137.16%	141.12%
Forfeiture rate	0.00%	N/A
Dividend rate	0.00%	N/A

**7. TREASURY STOCK**

	Number	Amount
Treasury shares, June 30, 2017 and December 31 2016	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.

**8. SEGMENTED INFORMATION**

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

June 30, 2017	Australia	United States	Total
Equipment	\$ -	\$ 2,263	\$ 2,263
Mineral property interests	704,053	-	704,053



	\$	704,053	\$	2,263	\$	706,316
<b>December 31, 2016</b>		Australia		United States		Total
Equipment	\$	-	\$	2,918	\$	2,918
Mineral property interests		704,053		-		704,053
	\$	704,053	\$	2,918	\$	706,971

## 9. EMC METALS AUSTRALIA PTY LTD

On August 24, 2015, the Company's \$2,500,000 promissory note payable converted into a 20% ownership interest in EMC Metals Australia Pty Ltd ( EMC Australia or EMC-A ), with the Company holding an 80% ownership interest. EMC Australia holds the Company's interests in the Nyngan Scandium Project and Honeybugle Scandium property. Upon conversion of the promissory note payable, EMC Australia is now operated as a joint venture between Scandium Investments LLC ( SIL ) and the Company. SIL holds a carried interest in the Nyngan Scandium Project and is not required to contribute cash for the operation of EMC Australia until the Company meets two development milestones: (1) filing a feasibility study on SEDAR, and (2) receiving a mining license on either joint venture property. As both of these two development milestones are now met, SIL has become fully participating as to their share of project costs.

**Scandium International Mining Corp.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2017

(Expressed in US Dollars) (Unaudited)

**9. EMC METALS AUSTRALIA PTY LTD (cont d )**

Completion of the development milestones by the Company, as described above, activates a second one-time, limited period option for SIL to elect 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 then prevailing market prices, rather than continue with ownership at the project level.

**10. SUBSEQUENT EVENTS**

On June 15, 2017 the Company announced the signing of a Memorandum of Understanding ( MOU ) to acquire SIL's entire 20% ownership of EMC Australia. Pursuant to the MOU the Company proposed to issue 57,371,565 shares of the Company's common stock to acquire SIL's shares of EMC-A and increase Company ownership of EMC-A from 80% to 100%.

The MOU 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 SCY in 2015. This royalty was excluded from SIL's share in the project interests, at the time, and as a result the exchange of shares contemplated in the MOU requires a true-up of value as part of the transaction. The true-up value is \$420,000, and will be paid to SIL with additional SCY common shares.

The MOU provided that on closing of the transaction the Company and SIL would enter into a nomination rights agreement, whereby SIL would have the right to nominate two directors to the Company Board for so long as they held at least 15% of the Company's issued and outstanding shares, and one director for so long as they held at least 5% but less than 15% of Company issued and outstanding shares.

The parties subsequently entered into a binding definitive agreement, dated for reference June 30, 2017, which included the terms of the MOU as described.

Closing of the acquisition of the EMC-A shares and payment of the consideration as described above is subject to Toronto Stock Exchange and shareholder approval. The Company has called a Special Meeting of Shareholders to be held September 11, 2017 for the purpose of seeking the approval of shareholders to the transaction with SIL.

In June 2017, the Company received C\$1,000,000 for a proposed private placement at C\$0.30 per share. The transaction was approved by the Toronto Stock Exchange on August 1, 2017 and shares were issued August 2, 2017.

In July 2017, the Company received an additional C\$88,500 for a private placement at C\$0.30 per share.

## 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 six month periods ended June 30, 2017 and should be read in conjunction with our unaudited interim consolidated financial statements and the notes thereto for the six month period ended June 30, 2017, and with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2016 (the Annual Statements).

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 August 4, 2017 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.

### 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 Form 10-K filed for the year ended December 31, 2016 under the heading Risk Factors and Uncertainties, and elsewhere in this Form 10-Q. 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.

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## Scandium International Corporate Overview

Scandium International is a specialty metals and alloys company focused on developing the 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, 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 an exploration stage property in Australia, known as the Honeybugle 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, the Company currently holds an 80% equity interest in its Australian subsidiary, with SIL holding a 20% interest. EMC Australia is operated as a joint venture between SIL and SCY with SIL holding a carried interest in the Nyngan Scandium Project until the Company meets two development milestones: (1) filing a feasibility study on SEDAR (the report was filed on May 6, 2016), and (2) receiving a Mining lease on either joint venture property (the Mine Lease grant was received May 4, 2017). As both of these two development milestones are now met, SIL becomes fully participating as to their share of project cost.

Completion of the development milestones by the Company, as described above, 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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On June 15, 2017, we announced that we had signed a Memorandum of Understanding (“MOU”) to acquire SIL’s entire 20% ownership of EMC Australia. Pursuant to the MOU the Company proposed to issue 57,371,565 shares of the Company’s common stock to acquire SIL’s shares of EMC-A and increase our ownership of EMC-A from 80% to 100%.

The MOU 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 SCY in 2015. This royalty was excluded from SIL’s share in the project interests, at the time, and as a result the exchange of shares contemplated in the MOU requires a true-up of value as part of the transaction. The true-up value is \$420,000, and will be paid to SIL with additional SCY common shares.

The MOU provided that on closing of the transaction Scandium and SIL would enter into a nomination rights agreement, whereby SIL would have the right to nominate two directors to the Board for so long as they 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.

The parties subsequently entered into a binding definitive agreement, dated for reference June 30, 2017, which included the terms of the MOU as described.

Closing of the acquisition of the EMC-A shares and payment of the consideration as described above is subject to Toronto Stock Exchange and shareholder approval. The Company has called a Special Meeting of Shareholders to be held September 11, 2017 for the purpose of seeking the approval of shareholders to the transaction with SIL as described above.

During the second quarter of 2017, we focused on Nyngan Scandium Project activities including scandium marketing arrangements and application for a mine lease with NSW Mines Department.

## **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 2900 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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## **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 Feasibility Study has been 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 increases 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 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. A number of the key elements of this flowsheet work have been protected by the Company under US Patent Applications. The continuous autoclave configuration, as opposed to batch systems explored in previous flow sheets, is also a more conventional and current design choice.

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 company, EMC Metals Australia Pty Ltd has 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 ("the Contract") appoints Lycopodium (Brisbane, QLD, Australia) to manage all aspects of project construction. Lycopodium is the principal engineering firm that delivered the latest NI 43-101 technical report on the Project, titled "Feasibility Study-Nyngan Scandium Project", filed on SEDAR on May 4, 2016. 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.

The EPCM contract with Lycopodium consists of two phases: Phase I is pre-notice to proceed ('NTP'), and Phase II is full-NTP. Phase I is a cost-reimbursable period that allows SCY full access to Lycopodium's services and the EPCM team for specific tasks and advance work on long-lead items. Phase II will be initiated with a formal NTP, fully at SCY's discretion, with project funding in place, and will activate the Contract and services as agreed in the scope of work.

Post-NTP, the Contract is cost-reimbursable for labor and other costs, and specifies fixed price components for labor rates, corporate overhead and profit margins ("Fee"), and firm scope (hours) for all EPCM services. A portion (50%) of the Fee is adjustable, based on measured performance on four specified parameters: overall project capital cost performance, schedule performance, safety performance and the overall assessment of Lycopodium's performance by Scandium International. There is also a provision in the Contract to establish a Fee incentive for Lycopodium based on

the ramp-up of the Project's production levels, post completion.

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Lycopodium has been awarded the majority of the services in this Contract scope, including project management, engineering design and management, procurement services, contracting services, construction management and commissioning. SCY has specified that Knight Piesold Consulting (Brisbane, QLD, Australia) will perform water, earthworks, and tailings systems engineering and design. Knight Piesold were the engineers on these components in the Nyngan DFS as well.

### ***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 80% owned 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 Discussion:**

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.

On May 5, 2017, the Company announced that EMC Metals Australia had been granted a Mining Lease. The Mining Lease (“ML”) overlays select areas previously covered by two Exploration Licenses. The ML was granted by the NSW Minister for Resource and Development on May 3, 2017, and 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, received 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.

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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 key license approvals are:

- An Environment Protection License,
- Water Supply Works and Use Approval and Water Access License,
- A Section 138 Permit issued by the Bogan Shire Council, 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.

### **ALCERECO MOU and Offtake Agreements**

On March 30, 2015, the Company announced that it had signed a memorandum of understanding (“ALCERECO 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 product developed for Sc-Al 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.

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 areas where aluminum alloys are used today, and in some cases where they cannot be used today.

- The ALCERECO MOU covers areas of joint cooperation and development of aluminum alloys that contain and are enhanced by the addition of scandium,
- The ALCERECO MOU recognizes the specialized capabilities ALCERECO holds for the design, manufacture, and testing of Sc-Al alloy materials,
- The offtake agreement outlines standard sale terms on 7,500 kg of scandia per annum, for a term of three years, which can be extended, and
- The offtake agreement contains both fixed and variable pricing components, which are subject to confidentiality.

ALCERECO is an advanced materials development company that provides services and specialty processing capabilities to companies innovating in a diverse range of markets, including aerospace, automotive, electronics and consumer/sporting goods. ALCERECO staff work with a range of materials and processes and have the tools and knowledge to take on leading-edge projects such as development of aluminum-scandium alloys, specialty ceramics, composites and graphene enhanced materials. The company has a particular focus on lightweight materials capable of delivering greater strength, functionality and exceptional performance.

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ALCERECO operates out of the Grafoid Global Technology Centre in Kingston, Ontario that was originally founded by Alcan Aluminum in the 1940s. ALCERECO is a Canadian private company, and a wholly-owned subsidiary of Ottawa-based Grafoid Inc., a graphene application development company.

### ***Weston Master Alloy MOU***

On March 2, 2017, we announced the signing of a Memorandum of Understanding (“Weston MOU”) with Weston Aluminium Pty Ltd (“Weston”) of Chatswood, NSW, Australia. The Weston 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 Weston 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 Weston 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

### **Nyngan Scandium Project - Planned Activities for 2017-2018**

The following steps are planned for Nyngan during the 2017 and 2018 Calendar years:

- Obtain a Mining Lease pertaining to the Nyngan Scandium Project with NSW Department of Trade and industry (the ML was granted on May 3, 2017),
- Pursue additional offtake agreements in support of planned future scandium sales,
- Seek project financing to fund the construction of the Nyngan Scandium Project,
- Commence site construction in late 2017, with anticipated construction completion over 18 months, and
- Initiate project commissioning in Q4 2018, product production in Q1 2019, and with product available for sale by the end of Q1 2019.

### **Other Properties Review**

#### **Honeybugle Scandium Property (NSW, Australia)**

On April 2, 2014, the Company announced that it had secured a 100% interest in an exploration license (EL 7977) covering 34.7 square kilometers in New South Wales, Australia. The license area, we call the Honeybugle scandium exploration property, is located approximately 24 kilometers west-southwest from the Company’s Nyngan Scandium Project and approximately 36 kilometers southwest from the town of Nyngan, NSW.

Exploration rights for the Honeybugle property include certain minimum expenditure requirements. The Company intends to fulfill those minimum expenditure requirements.

#### **Drill Results**

On May 7, 2014, the Company announced completion of an initial program of 30 air core (“AC”) drill holes on the property, specifically at the Seaford anomaly, targeting scandium (Sc). Results on 13 of these holes are shown in detail, in the table below. These holes suggest the potential for scandium mineralization on the property similar to Nyngan.

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- Highlights of initial drilling program results include the following: The highest 3-meter intercept graded 572 ppm scandium (hole EHAC 11),
- EHAC 11 also generated two additional high grade scandium intercepts, grading 510 ppm and 415 ppm, each over 3 meters,
- The program identified a 13-hole cluster which was of particular interest; intercepts on these 13 holes averaged 270 ppm scandium over a total 273 meters, at an average continuous thickness of 21 meters per hole, representing a total of 57% (354 meters) of total initial program drilling,
- The 13 holes produced 29 individual (3-meter) intercepts over 300 ppm, representing 31% of the mineralized intercepts in the 273 meters of interest, and
- This initial 30-hole AC exploratory drill program generated a total of 620 meters of scandium drill/assay results, over approximately 1 square kilometer on the property.

#### Other Developments Second Quarter 2017

**Stock Option Grants:** On May 11, 2017, the Company granted a total of 250,000 stock options at an exercise price of C\$0.60 per share, exercisable until May 22, 2020, to a consultant of the Company.

**Private Placements:** On August 1, 2017, the Company completed a private placement of 3,628,333 common shares to three individuals for total gross proceeds of C\$1,088,500. No broker fees were paid in connection with the private placement.

#### Operating results for the quarter ended June 30, 2017

The Company's results reflect lower operating costs due to lower exploration costs which was partially offset by increases in salaries, general and administrative costs and stock-based compensation (a non-cash expense). Excluding non-cash costs, expenditures were down \$100,378 due to the cessation of costs incurred in developing the definitive feasibility study which was completed in early Q2 2016.

#### Summary of quarterly results

A summary of the Company's quarterly results are shown below at Table 1.

**Table 1. Quarterly Results Summary**

	2017			2016			2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net Sales	-	-	-	-	-	-	-	-
Net Income								
(Loss)	(490,303)	(1,327,766)	(198,183)	(333,031)	(496,118)	(1,081,096)	(1,163,542)	(503,537)
attributable to								
Scandium								
Mining Corp.								
Basic and diluted								

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Net Income	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.00)
(Loss) per								
share								
attributable								
to								
Scandium								
Mining								
Corp.								

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**Results of Operations for the three months ended June 30, 2017**

The net loss for the quarter was \$490,303, a decrease of \$5,815 from \$496,118 in the same quarter of the prior year. Details of the individual items contributing to the decreased net loss are set out below at Table 2:

**Table 2. Variance Analysis for Net Loss**

<b>Q2 2017 vs. Q2 2016 - Variance Analysis</b>		
<b>Item</b>	<b>Variance Favourable / (Unfavourable)</b>	<b>Explanation</b>
Exploration	\$174,685	During Q2 2016 the Company was incurring costs for the Nyngan Scandium Project development and the preparation of a DFS on that project. In the comparative quarter in 2017 only development costs were being incurred.
Foreign exchange	\$15,820	The Company held considerably more Australian and Canadian dollars throughout the second quarter of 2017 than in the comparable quarter of 2016. Both of these currencies increased in value in Q2 2017 resulting in a foreign exchange gain.
Professional fees	\$3,636	The favorable variance is due to Q2 2016 costs reflecting expenditures on the development of the Nyngan Scandium Project definitive feasibility study. No such costs were incurred in Q2 2017.
Insurance	\$1,342	Insurance rates for general liability were lowered by our insurance provider for the current period when compared to Q2 2016.
Amortization	\$736	Furniture and fixtures at the Reno office were fully depreciated in 2016 resulting in lower amortization charges in Q2 2017 when compared to Q2 2016.
Travel and entertainment	\$(9,431)	Higher travel costs in Q2 2017 as compared to Q2 2016 are due to costs incurred to attend conventions and to secure off-take agreements.

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Consulting	\$(14,134)	In Q2 2017, the Company hired consultants to promote the Company in Australia and Europe. No such costs were incurred in Q2 2016.
General and administrative	\$(32,442)	The higher G&A costs in Q2 2017 when compared to Q2 2016 are due to increased spending on marketing and investor relations.

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**Q2 2017 vs. Q2 2016 - Variance Analysis**

<b>Item</b>	<b>Variance Favourable / (Unfavourable)</b>	<b>Explanation</b>
Costs allocable to non-controlling interest	\$(35,407)	20% of the losses incurred in the Nyngan Scandium Project are allocated to the minority partner interest, effectively reducing the Company loss for the quarter. Lower Nyngan operating costs in Q2 2017 than in Q2 2016, resulted in a smaller allocation of losses this quarter.
Salaries and benefits	\$(39,098)	The Company hired a Vice President Project and Market Development late in Q2 2016 and increased his responsibilities and salary in 2017.
Stock-based compensation	\$(59,892)	The increase in stock option compensation (unfavourable variance) is due primarily to a higher Company stock price on the date the options were issued. The price in Q2 2016 was C\$0.20 versus C\$0.60 in Q2 2017. Stock price and stock price volatility are key factors in computing the compensation expense.

**Results of Operations for the six months ended June 30, 2017**

The net loss for the period was \$1,818,069, an increase of \$240,855 from \$1,577,214 in the same period of the prior year. Details of the individual items contributing to the increased net loss are set out below at Table 3:

**Table 3. Variance Analysis for Net Loss****Six months ending June 30, 2017 vs. six months ending June 30, 2016 - Variance Analysis**

<b>Item</b>	<b>Variance Favourable / (Unfavourable)</b>	<b>Explanation</b>
Stock-based compensation	\$(740,047)	The increase in stock option compensation (unfavourable variance) is due primarily to a higher Company stock price on the date the options were issued. The prices in 2016 were C\$0.13 and 0.20 versus C\$0.37 and 0.60 in 2017. Stock price and stock price volatility are key factors in computing the compensation expense.



## Six months ending June 30, 2017 vs. six months ending June 30, 2016 - Variance Analysis

Item	Variance Favourable / (Unfavourable)	Explanation
Costs allocable to non-controlling interest	\$(124,049)	20% of the losses incurred in the Nyngan Scandium Project are allocated to the minority partner interest, effectively reducing the Company loss for the quarter. Lower Nyngan operating costs in 2017 than in 2016, resulted in a smaller allocation of losses this quarter.
Salaries and benefits	\$(74,817)	The Company hired a Vice President Project and Market Development late in Q2 2016 and increased his responsibilities and salary in 2017.
Travel and entertainment	\$(15,111)	Higher travel costs in 2017 as compared to 2016 are due to costs incurred to attend conventions and to secure off-take agreements.
Consulting	\$(15,034)	In 2017, the Company hired consultants to promote the Company in Australia and Europe. No such costs were incurred in the comparable period of 2016.
General and administrative	\$(11,878)	The higher G&A costs in 2017 when compared to 2016 are due to increased spending on marketing and investor relations costs.
Amortization	\$1,525	Furniture and fixtures at the Reno office were fully depreciated in 2016 resulting in lower amortization charges in 2017 when compared to 2016.
Insurance	\$2,702	Insurance rates for general liability were lowered by our insurance provider for the current period when compared to 2016.
Professional fees	\$27,260	The favorable variance is due to 2016 costs reflecting expenditures on the development of the Nyngan Scandium Project definitive feasibility study. No such costs were incurred in 2017.

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Foreign exchange	\$36,145	The Company held considerably more Australian and Canadian dollars throughout the six months ended June 30, 2017 than in the comparable period of 2016. Both of these currencies increased in value in 2017 resulting in a foreign exchange gain.
Exploration	\$672,449	During the first 6 months of 2016 the Company was incurring costs for the Nyngan Scandium Project development and the preparation of a DFS on that project. In the comparative period of 2017 only development costs were being incurred.

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**Cash flow discussion for the six-month period ended June 30, 2017 compared to June 30, 2016**

The cash outflow for operating activities was \$(693,482), an increase of \$715,823 (June 30, 2016 \$1,409,305), due to receipt of financing funds received for which a stock certificate had not been issued by period end and lower activity levels as described in the variance analysis.

Cash outflows for investing activities were \$3,157 lower due to the purchase of computer equipment in Q1 2016 (June 30, 2017 - \$Nil) (June 30, 2016 \$3,157).

Cash inflows from financing activities reflect the exercise of stock options as well as private placement resulting in an increase of \$1,206,463 when compared to the six month period ended June 30, 2016 (June 30, 2016 (\$Nil)).

**Financial Position**

*Cash*

The Company's cash position increased during the six-month period by \$512,981 to \$1,128,215 (December 31, 2016 - \$615,234) due to a private placement and the exercise of Company stock options.

*Prepaid expenses and receivables*

Prepaid expenses and accounts receivable decreased by \$17,714 to \$33,513 due to value added tax in Australia that was paid in 2017 (December 31, 2016 - \$51,227).

*Property and equipment*

Property and equipment consist of computer equipment at the Sparks, Nevada office. The decrease of \$655 to \$2,263 (December 2016 - \$2,918) is due to amortization of that computer equipment in the quarter.

*Mineral interests*

Mineral interests remained the same at \$704,053.

*Accounts payable, accrued liabilities, accounts payable with related parties and financing received in advance*

Current liabilities have increased by \$747,971 to \$789,324 (December 2016 \$41,353) due to the receipt of financing funds for which a share certificate had not been issued by June 30, 2017.

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### *Capital Stock*

Capital stock increased by \$670,920 to \$91,813,255 due to a private placement incurring in the six month period ended June 30, 2017 and the exercise of Company stock options (December 31, 2016 -\$91,142,335).

Additional paid-in capital increased by \$941,130, to \$7,785,801 (December 31, 2016 - \$6,844,671) as a result of expensing of stock options which was partially offset by the exercise of stock options.

### **Liquidity and Capital Resources**

At June 30, 2017, the Company had a working capital of \$372,404 including cash of \$1,128,215 as compared to a working capital of \$625,108 including cash of \$615,234 at December 31, 2016.

At June 30, 2017, the Company had a total of 22,496,000 stock options exercisable between CAD\$0.07 and CAD\$0.60 that have the potential upon exercise to generate a total of C\$3,852,830 in cash over the next five years. There is no assurance that these securities will be exercised. The Company's continued development is contingent upon its ability to raise sufficient financing both in the short and long term. There are no guarantees that additional sources of funding will be available to the Company; however, management is committed to pursuing all possible sources of financing in order to execute its business plan. The Company continues its cost cutting measures to conserve cash to meet its operational obligations.

### **Outstanding share data**

At the date of this report, the Company has 233,139,594 issued and outstanding common shares and 23,760,000 stock options currently outstanding at a weighted average exercise price of CAD\$0.18.

Since June 30, 2017, 25,000 options were exercised at C\$0.12 for common shares and 3,628,333 common shares at C\$0.30 were issued in a private placement.

### **Off-balance sheet arrangements**

At June 30, 2017, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

### **Transactions with related parties**

During the 6-month period ended June 30, 2017, the Company expensed \$841,930 for stock-based compensation for stock options issued to Company directors. During the 6-month period ended June 30, 2016, the Company expensed \$334,129 for stock-based compensation for stock options issued to Company directors.

During the 6-month period ended June 30, 2017, the Company paid a consulting fee of \$51,000 to one of its directors. During the 6-month period ended June 30, 2016, the Company paid a consulting fee of \$51,000 to one of its directors.

As at June 30, 2017, the Company owed \$Nil to various directors and officers of the Company. (December 31, 2016 - \$13,704)

### **Proposed Transactions**

There are no proposed transactions outstanding other than as disclosed.



## **Critical Accounting Estimates**

The preparation of financial statements in conformity with generally accepted accounting policies requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on past experience, industry trends and known commitments and events. By their nature, these estimates are subject to measurement uncertainty and the effects on the financial statements of changes in such estimates in future periods could be significant. Actual results will likely differ from those estimates.

### *Stock-based compensation*

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock options and compensatory warrants granted. This model is subject to various assumptions. The assumptions the Company makes will likely change from time to time. At the time the fair value is determined; the methodology the Company uses is based on historical information, as well as anticipated future events. The assumptions with the greatest impact on fair value are those for estimated stock volatility and for the expected life of the instrument.

### *Future income taxes*

The Company accounts for tax consequences of the differences in the carrying amounts of assets and liabilities and their tax bases using tax rates expected to apply when these temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no future income tax asset is recognized. The Company has taken a valuation allowance against all such potential tax assets.

### *Mineral properties and exploration and development costs*

The Company capitalizes the costs of acquiring mineral rights at the date of acquisition. After acquisition, various factors can affect the recoverability of the capitalized costs. The Company's recoverability evaluation of our mineral properties and equipment is based on market conditions for minerals, underlying mineral resources associated with the assets and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is exposed to a number of risks and uncertainties, including exploration risk, development risk, commodity price risk, operating risk, ownership and political risk, funding and currency risk, as well as environmental risk. Bearing these risks in mind, the Company has assumed recent world commodity prices will be achievable. The Company has considered the mineral resource reports by independent engineers on the Nyngan Scandium Project in considering the recoverability of the carrying costs of the mineral properties. All of these assumptions are potentially subject to change, out of our control, however such changes are not determinable. Accordingly, there is always the potential for a material adjustment to the value assigned to mineral properties and equipment.

## **Recent Accounting Pronouncements**

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 is currently evaluating the impact this guidance will have on its 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 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.

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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 is reviewing this update to determine the impact it may have on its financial statements.

### **Financial instruments and other risks**

The Company's financial instruments consist of cash, receivables, accounts payable, accounts payable with related parties, accrued liabilities and promissory notes payable. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from its financial instruments. The fair values of these financial instruments approximate their carrying values unless otherwise noted. The Company has its cash primarily in three commercial banks, one in Vancouver, British Columbia, Canada, one in Mackay, Queensland, Australia and in one in Chicago, Illinois.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

### **Item 4. Controls and Procedures**

#### **Disclosure controls and procedures**

The Company's management is responsible for establishing and maintaining adequate disclosure controls and procedures. The Company's management, including our principal executive officer and our principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, the principal executive officer and principal financial officer concluded that as of the end of the period covered by this report, the Company has maintained effective disclosure controls and procedures in all material respects, including those necessary to ensure that information required to be disclosed in reports filed or submitted with the SEC (i) is recorded, processed, and reported within the time periods specified by the SEC, and (ii) is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow for timely decision regarding required disclosure.

#### **Changes in Internal Control**

There have been no changes in internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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## PART II OTHER INFORMATION

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On August 1, 2017, the Company completed a private placement of 3,628,333 shares of common stock at a price of C\$0.30 per share for total proceeds of C\$1,088,500. The securities were sold to two accredited investors pursuant to Rule 506 of Regulation D and to a non-US person pursuant to Regulation S under the United States Securities Act of 1933, as amended.

The proceeds from this financing will be used for general working capital.

### Item 6. Exhibits

- 3.1 Articles of Incorporation (incorporated by reference to Exhibit 3.2 to the Form 10-K of the Company, filed with the SEC on February 27, 2015 and the Form 10 of the Company filed on May 24, 2011)
- 10.1 Share Exchange Agreement between the Company, EMC Australia Pty Ltd. and Scandium Investments LLC dated June 30, 2017 (incorporated by reference to Exhibit 99.1 to the Form 8-K of the Company, filed with the SEC on July 26, 2017)
- 31.1 Certification of the Principal Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the U.S. Securities Exchange Act of 1934 (filed herewith)
- 31.2 Certification of the Principal Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the U.S. Securities Exchange Act of 1934 (filed herewith)
- 32.1 Section 1350 Certification of the Principal Executive Officer (filed herewith)
- 32.2 Section 1350 Certification of the Principal Financial Officer (filed herewith)
- 101 Financial Statements from the Quarterly Report on Form 10-Q of the Company for the six months ended June 30, 2017, formatted in XBRL (filed herewith)

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 8, 2017

### SCANDIUM INTERNATIONAL MINING CORP.

(Registrant)

By: /s/ George Putnam  
George Putnam  
Principal Executive Officer

By: /s/ Edward Dickinson  
Edward Dickinson  
Principal Financial Officer

