

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, 2019

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)

Securities registered pursuant to Section 12(b) of the Act: None

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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 07, 2019, the registrant's outstanding common stock consisted of 312,482,595 shares.**

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

## **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” or the “Company”) and its subsidiaries provides an analysis of the operating and financial results for the three and nine month periods ended September 30, 2019 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, 2019, and with the Company’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2018 (the “Annual Statements”).

This discussion and analysis contains 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, 2018, 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 06, 2019 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 Form 10Q, including the 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 of and consultant to 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 in 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, change.

### **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 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" or "EMC-A,") 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.

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 SIL held at least 15% of Scandium's issued and outstanding shares, and one director for so long as SIL 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 2019, we focused on Nyngan Scandium Project activities including scandium marketing arrangements.

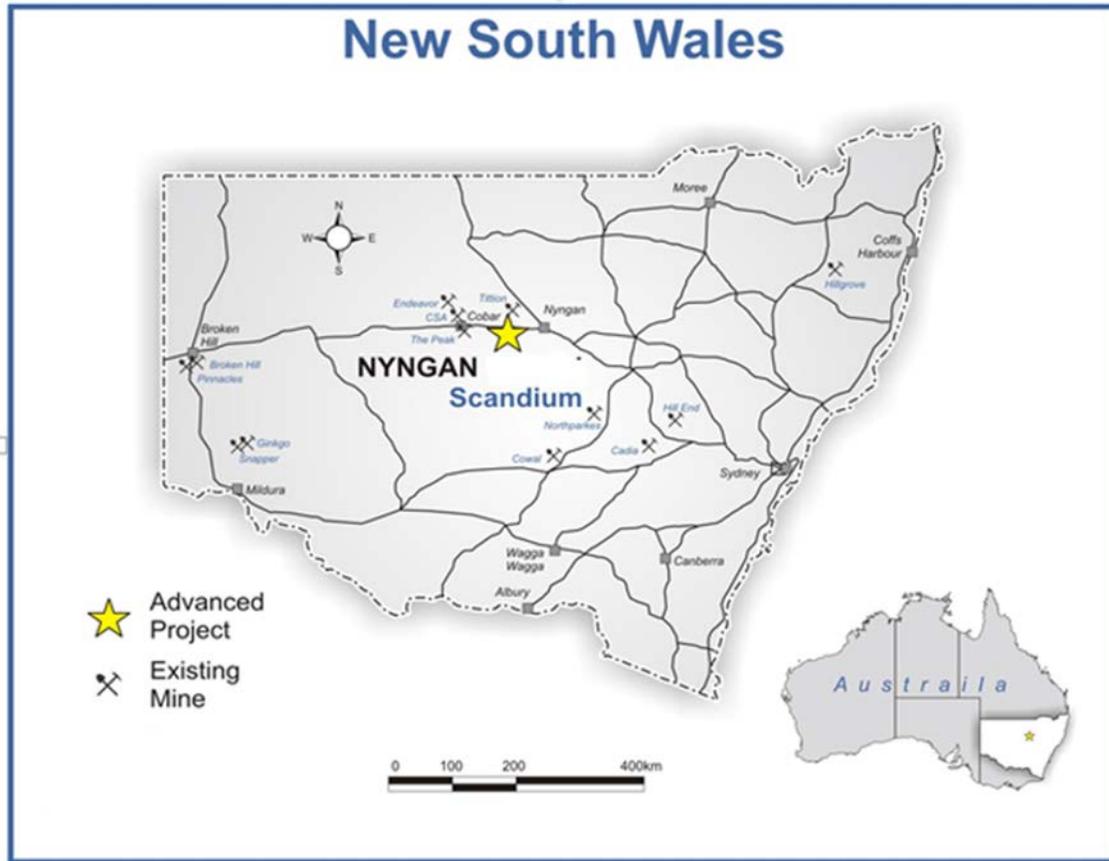
### **Principal Properties Review**

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

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

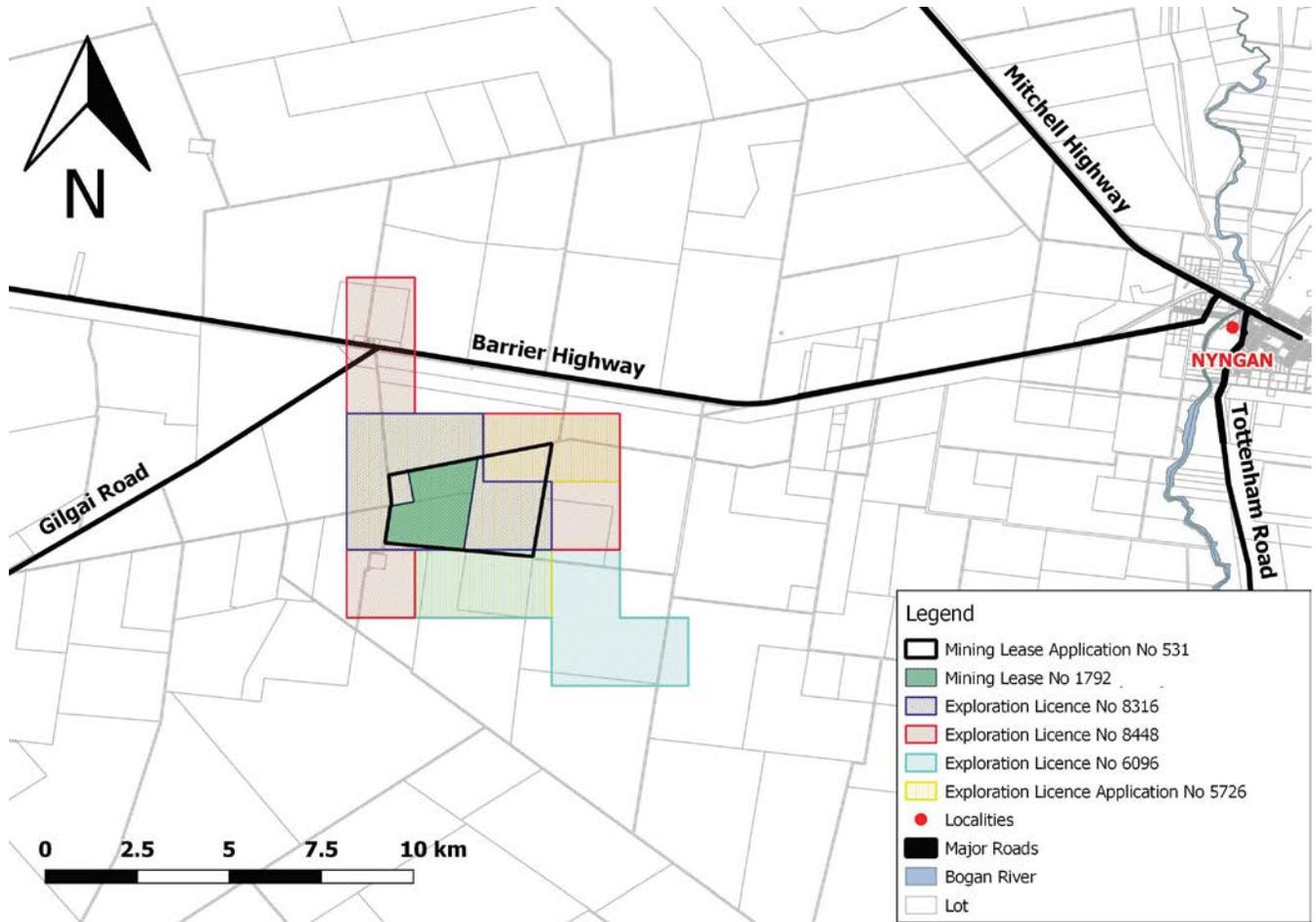
The Nyngan Scandium Project site is located approximately 450 kilometers northwest of Sydney, NSW, Australia and approximately 20 kilometers due west of the town of Nyngan, a rural town of approximately 2900 people. The general area can be characterized as flat countryside and is classified as agricultural land, used predominantly for wheat farming and livestock grazing.

**Figure 1: Location of Nyngan Project**



**Note: None of the Existing Mines identified in Figure 1 produce scandium.**

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



Note: All Exploration Licenses and Leases described in Figure 2 are held 100% by EMC-A.

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)), 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<sub>10%</sub> 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 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 NPV10% is US\$177 million, (NPV8% 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 and consolidates a significant amount of metallurgical test work and prior study on the Nyngan Scandium Project. 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.

The level of accuracy established in the Feasibility Study substantially reduces the uncertainty levels inherent in earlier studies. 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 conditional 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 recommended 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. The Company intends to act on these recommendations as financing permits.

### ***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 addressed 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 has been instructed to initiate critical path engineering for the Nyngan Scandium Project. Lycopodium commenced work 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. The engineering work was completed in 2018 and will enable final supplier selection, firm component pricing and delivery dates for these key process components.

### ***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 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 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 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.

In May 2017, EMC Australia received notice of approval of its Mining Lease application (“MLA 531”), resulting in the grant of a Mining Lease (“ML 1763”), which overlaid select areas previously covered by two Exploration Licenses.

NOTE: subsequent changes to ML 1763 are described below.

ML 1763 represented the final major development approval required from the NSW Government to begin construction on the project. The ML was awarded after all environmental work had been completed and reviewed, all social implications of project development considered, and required as a pre-condition that the NSW Environmental Minister had issued a Development Consent. The ML grant reflects the further review that the State resource value was considered and approved for extraction based on mine development plans. The ML was issued for a period of 21 years, and was based on the development plans and intent submitted in the ML Application. The ML was subject to modification 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 are each underway, but remain to be finalized:

- Water Supply Works and Use Approval and Water Access License,
- State and local approval for construction of a redesigned intersection of the Site Access Road with 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.

On January 2, 2019, the Company announced receipt of notification that the Department intended to review its 2017 decision to grant ML 1763, as related to the Nyngan Scandium Project.

This Department review was a required response to the confirmation of a historical objection lodged by an affected landowner maintaining that his affected property is “Agricultural Land”, as defined by the applicable laws.

The landowner filed his formal objection with the Department in mid 2016, but the objection notice was improperly handled, and was only physically located and verified as compliant in mid 2018. The landowner did make the Department aware of the existence of this unrecorded objection in mid 2017, and the Company was subsequently advised that the objection was investigated by the Department directly with the landowner, prior to final award of the signed ML 1763 grant in late 2017.

The Department reviewed the situation and the proper response for approximately 6 months, before advising the Company in April 2019 that it would take steps to determine the ML 1763 invalid. During this time, the landowner sued the Department Minister, other Department officials, and the Company in a Court designed for hearing landowner objections. The lawsuit requested the project ML 1763 be formally revoked, and it was formally revoked in mid 2019.

In May 2019 the Company filed a new Mine Lease Application (“MLA 568”) with the Department, related to the Nyngan project, covering only surface area fully owned by the Company.

On July 24, 2019 the Company announced that a new mine lease (“ML 1792”) was granted by the Department for the project. While the new ML covers only a portion of the total area originally covered by the prior ML, the Company maintains it can construct and operate a scandium mine of similar scale to our current plans within that reduced footprint.

The Department has a binding legal obligation to rule on the legitimacy of the 2016 landowner objection, specifically on the claim that ground over mineral resource that remains under control of the Company, is indeed “Agricultural land” as defined in Australian laws. The Department has not yet made that ruling. The Department engaged an independent consultant, beginning in October 2018, to opine on the matter, and the consultant produced in December a draft report in agreement with the landowner claim. The Company and Company Counsel subsequently outlined detailed disagreement with that consultant’s findings, and, as of this writing, the matter remains under continuing review.

The Department’s eventual decision on the validity of the landowner objection will determine the outcome on the original 2016 mine lease application (MLA 531). If the landowner’s objection is rejected by the Department, then the Company will request that the Department proceed to grant a second, separate Mining Lease to the Company. The second Mining Lease will combine with ML 1792 to effectively reinstate the full area and rights to mine that were originally granted in 2017.

The Company believes that the viability of the project is not dependent on surface land rights related to the current landowner objection, and therefore on the Department findings related to validity of the pending objection.

Regardless of how the Department rules on the validity of the neighboring landowner's objection, the Company can also recover mining rights to the adjacent property through surface land rights purchase, lease, or consent, from the landowner. The Company remains in active discussion with the landowner regarding the property rights in question.

### **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. The overall objective of this research was to demonstrate and commercialize the production of aluminum-scandium master alloy using impure scandium oxide as the scandium source, 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.

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.

On March 5, 2018, the Company announced that it had initiated a pilot scale program at the Alcerco 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 scale program was 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.

The pilot program consisted of 5 separate trials on two MA product types, production of MA in various forms, and dross analysis to ascertain scandium recoveries to product. The mass of master alloy and product variants produced in the program totaled approximately 20kg. The pilot program, as defined for 2018, was completed in December of 2018. Additional pilot scale work to pursue further refinements and specific process optimization was undertaken in Q2 2019, with results expected on this program in Q4 2019.

On March 5, 2018, 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.

### **Focus on Aluminum Alloy Applications for Scandium Products**

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. The specific scandium product forms we intend to sell from the Nyngan project include both scandium oxide ( $\text{Sc}_2\text{O}_3$ ) and aluminum-scandium master alloys (Al-Sc 2%).

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 that aluminum alloys do not currently compete.

### **Aluminum Alloy Research Partner – 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 product developed for scandium aluminum alloy markets, Scandium International and Alcereco also signed an offtake agreement governing sales terms of scandium oxide product 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 for 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 multiple 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 1000 series, 3000 Series, 5000 Series and 7000 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. These findings are considered commercially sensitive, and the data is not intended for public disclosure at this time, although the findings and data are being shared with select potential customers under specific non-disclosure agreement protections, as is deemed relevant to their specific areas of commercial interest.

## *Letters of Intent*

During 2018 and 2019, the Company announced signing letter of intent (“LOI”) agreements with nine unrelated partnering entities. In each LOI, we have agreed to contribute scandium samples, either in form of scandium master alloy product, or aluminum-scandium alloy product, for trial testing by the partners in their downstream manufacturing applications. Each of the parties to the LOI agreements have agreed to report the parameters and general results of the testing program utilizing these scandium-containing alloys, upon completion of testing. The Company plans to continue this LOI program of introducing scandium for trial testing by partners through agreements with more potential customers in 2019.

These formal LOI agreements, 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 partnering entities in these LOI agreements are set out below:

Austal Ltd. (“Austal”), headquartered in Henderson, Western Australia, (Australia). Austal is a public corporation, listed on the Australian Stock Exchange (ASX:ASX), with shipbuilding facilities in Perth, Australia, Mobile, Alabama (USA), Vung Tau, Vietnam and Balamban, Cebu (Philippines). The company maintains a focus on research and development of emerging maritime technologies and cutting-edge ship designs, and is a recognized world leader in the design and construction of large aluminum commercial and defense vessels.

Impression Technologies Ltd. (“ITL”), based in Coventry, UK. ITL is a privately held technology company, developing and licensing its advanced aluminum forming technology, Hot Form Quench (“HFQ®”), to automotive, aerospace, rail and electronics industries, globally. ITL 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”), based in Coventry, UK. PAB 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 premium market segment of the British automotive industry for decades.

Eck Industries Inc. (“Eck”), based in Manitowoc, Wisconsin, USA. Eck is a privately held manufacturer of precision sand cast parts, and engineering services. Eck Industries operates a 210,000 sq. ft. facility with over 250 employees, and 110 customers. Customer segments include commercial aircraft parts, automotive and trucking cast parts, military drivetrain casings, marine propulsion system castings, and military aerospace components.

Grainger & Worrall Ltd. (“GW”), based in Shropshire, UK. GW is a privately held manufacturer of precision sand cast parts, and engineering services. GW is a well-recognized precision air-set sand cast parts manufacturer in the UK, specializing in low to intermediate volume cast parts for commercial automotive, motorsports/racing, defense, marine, and aerospace applications.

Gränges AB (“Gränges”), based in Stockholm, Sweden. Gränges is 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%.

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 alloys.

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.

Bronze-Alu Group (“BAL”), based in La Couture-Boussey, northern France. BAL is a privately held manufacturer of precision high-pressure die cast parts, and offers prototyping, machining, finishing and engineering services, employing both aluminum and copper-based alloys. BAL exports approximately 80% of its products to customers outside of France. This agreement was signed during March 2019.

These LOI agreements are part of a developing strategy by the Company to engage with innovative, research-capable partners, willing to test scandium in their applications. The Company also has similar agreements with other research capable partners who do not wish to be publicly named at this time. We are selecting and approaching these 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 enable an expedient uptake on that validation. The scandium market for aluminum alloys needs to be built, and that construction should be seen as underway in the most direct sense. The Company plans to conduct further application-specific programs in pursuit of sales contracts with quality, predominantly existing aluminum alloy, customers across numerous industry segments.

### ***Nyngan Scandium Project - Planned Activities for 2019-2020***

The following steps are planned for Nyngan during the 2019, 2020 and 2021 calendar years:

- Complete master alloy pilot trials and optimization work in Q4 2019,
- Pursue additional offtake agreements in support of planned future scandium sales,
- Seek project construction financing for the Nyngan Scandium Project in Q2 2020
- Commence site construction in late 2020, with anticipated completion over 14 months, and
- Initiate project commissioning in late 2021, with product available for sale by year end 2021.

### **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 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 Scandium Property include certain minimum expenditure requirements. The Company intends to fulfill those minimum expenditure requirements.

#### ***Honeybugle 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.

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.

### **Kiviniemi Scandium Property (Eastern Finland Province, Finland)**

On September 25, 2017, the Company announced that its wholly-owned subsidiary company, Scandium International Mining Corp., Norway AS, was granted a reservation on an Exploration License for the Kiviniemi Scandium property in central Finland from the Finnish regulatory body governing mineral exploration and mining in Finland. The exploration license was subsequently granted during August 2018.

The Geological Survey of Finland (“GTK”) conducted airborne survey work on the area in 1986, conducted exploration drilling on the property in 2008-2010, and published those program results on their public GTK website in 2016. The Company’s Exploration License area is approximately 24.6 hectares (0.25 square kilometer), identical to the historic GTK exploration license on the property.

#### *Highlights*

- Kiviniemi property previously identified for scandium and explored by GTK,
- Property is a high iron content, medium grade scandium target, located on surface, with on-site upgrade potential,
- Early resource upgrade work done for GTK promising, confirmed by SCY,
- Property is all-weather accessible, close to infrastructure, and
- Finland location is mining-friendly and ideally suited to EU customer markets.

#### *Kiviniemi Summary*

The Kiviniemi property represents a medium grade scandium resource target that has remained unrecognized and overlooked by exploration work, largely due to the absence of the more commonly sought-after minerals in the region, specifically copper, nickel and cobalt. We believe that Kiviniemi is Europe’s largest underdeveloped primary scandium resource.

The target has benefited significantly from valuable early exploration work by the GTK, which has advanced the property to a stage where successful metallurgical investigations may prove value that offsets grade concerns. SCY estimates roughly US\$2M of work value has been directed at this property to date, including field work, drilling programs, assay work, overheads, and metallurgical upgrade studies, but firm numbers are not available.

We intend to undertake a limited drill program to augment the existing GTK data, and provide more sample material for metallurgical test work programs to define economic site upgrade possibilities on the scandium mineralization observed to date.

### **Other Developments – Third Quarter 2019**

None

### **Operating results - Revenues and Expenses**

The Company's results on a year-to-date basis reflect lower operating costs due to decreases in stock-based compensation (a non-cash expense), exploration and salaries. Excluding non-cash costs, expenditures were down \$154,690 due to lower professional fees, salaries and exploration expenses. These lower costs were slightly offset by higher consulting fees.

The Company's results on when comparing Q3 2019 to Q3 2018 reflect decreased operating costs due to a decrease in stock-based compensation (a non-cash expense). Excluding non-cash costs, expenditures were up \$45,212 due to higher consulting fees, travel expenditures and general and administrative costs. These higher costs were offset by lower exploration costs.

### Summary of quarterly results

A summary of the Company's quarterly results are shown below at Table 10.

**Table 10. Quarterly Results Summary**

	2019			2018				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net Sales	-	-	-	-	-	-	-	-
Net Income (Loss) attributable to Scandium Mining Corp.	(443,426)	(859,934)	(332,766)	(543,316)	(461,781)	(626,398)	(1,329,613)	(563,452)
Basic and diluted Net Income (Loss) per share attributable to Scandium Mining Corp.	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)

### Results of Operations for the three months ended September 30, 2019

The net loss for the quarter was \$443,426, a decrease of \$18,355 from \$461,781 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 11:

**Table 11. Variance Analysis for Net Loss**

Q3 2019 vs. Q3 2018 - Variance Analysis		
Item	Variance Favourable / (Unfavourable)	Explanation
Stock-based compensation	\$64,567	Timing of stock option expense recognition is affected by vesting provisions. In Q1 of 2018, the Company issued stock options which vested over a 2 year period and resulted in expenses

<b>Q3 2019 vs. Q3 2018 - Variance Analysis</b>		
<b>Item</b>	<b>Variance Favourable / (Unfavourable)</b>	<b>Explanation</b>
		during 2018 Q3 of \$69,411. Options issued in Q2 of 2019 all vested immediately resulting in minimal costs during Q3 of 2019.
Exploration	\$58,041	The Company is not actively doing exploration work on either of its projects as it seeks to create markets for its production. In Q3 2018 funds were still being expended on exploration efforts.
Salaries and benefits	\$1,275	The minor positive variance is due to exchange rate impact on salaries paid in Australia.
Insurance	\$(288)	The slightly higher cost in Q3 2019 is due to overall increases in insurance premiums for the Company's operations.
Amortization	\$(418)	In the second half of 2018, the Company replaced its computer servers in the Sparks, Nevada office. The higher amortization expense in 2019 is due to this expenditure.
Professional fees	\$(879)	Costs for the comparative quarters are almost identical.
Consulting	\$(13,328)	The Company hired new consultants for marketing scandium in America in the latter half of 2018. Q3 2018 does not include these costs hence the lower charges in the same period one year ago.
Foreign exchange loss	\$(14,580)	In Q3 2019, the Canadian and Australian dollars weakened against the US dollar. Funds held at financial institutions outside the US experienced these foreign exchange losses.
Travel and entertainment	\$(16,348)	In Q3 2019, trips were made to Europe to promote the Company's stock resulting in the much higher travel costs when compared to the same period one year prior.
General and administrative	\$(59,687)	In Q3 2019, fees were paid for the services in Europe that was used to help introduce the Company to potential investors in Europe.

### **Results of Operations for the nine months ended September 30, 2019**

The net loss for the nine-month period was \$1,636,126, a decrease of \$781,666 from \$2,417,792 in the

same nine-month period of the prior year. Details of the individual items contributing to the decreased net loss are set out below at Table 12:

**Table 12. Variance Analysis for Net Loss**

<b>Nine-months ended September 30, 2019 vs. nine-months ended September 30, 2018 - Variance Analysis</b>		
<b>Item</b>	<b>Variance Favourable / (Unfavourable)</b>	<b>Explanation</b>
Stock-based compensation	\$626,976	In 2019 the company granted 9,860,000 stock options compared to 6,500,000 stock options issued in 2018. However, more immediate vesting provisions resulted in a higher expense in 2018. Also, the Company's shares were trading at a lower price at the time of the 2019 stock option grant, resulting in a lower compensation expense.
Exploration	\$156,397	The Company is not actively doing exploration work on either of its projects as it seeks to create markets for its production. In 2018 funds were still being expended on exploration efforts.
Salaries and benefits	\$86,038	The amount paid in 2019 is lower due to the resignation of a senior company officer in June of 2018. The position was not replaced.
Foreign exchange	\$38,621	Currency exchange rates were more stable in 2019 when compared to 2018 resulting in this favourable variance.
Professional fees	\$24,370	2018 costs include legal fees pertaining to closing of the Exchange Agreement with SIL and conversion of SIL's 20% interest in EMC-A to shares of SCY.
Travel and entertainment	\$1,056	Travel costs when compared to the prior year were relatively the same.
Insurance	\$(797)	The slightly higher cost in 2019 is due to overall increases in insurance premiums for the Company's locations.
Amortization	\$(1,256)	In the second half of 2018, the Company replaced its computer servers in the Sparks, Nevada office. The higher amortization expense in 2019 is due to this expenditure.
General and administration	\$(72,801)	Included in Q2 2019 are the costs of applying for a new mining lease in Australia of US\$31,188 as well as fees paid to help promote

<b>Nine-months ended September 30, 2019 vs. nine-months ended September 30, 2018 - Variance Analysis</b>		
<b>Item</b>	<b>Variance Favourable / (Unfavourable)</b>	<b>Explanation</b>
Consulting	\$(76,938)	the Company's stock in Europe led to this unfavourable variance.  The Company hired new consultants for marketing scandium in America in the latter half of 2018 and in 2019. The first six months of 2018 does not include these costs hence the lower charges in the same period one year ago.

### **Cash flow discussion for the three-month period ended September 30, 2019 compared to September 30, 2018**

The cash outflow for operating activities was \$247,817, a decrease of \$217,287 (September 30, 2018 – \$465,104), due to lower operating costs as described in the variance analysis.

Cash inflows from financing activities were \$64,316 in Q3 2019 as compared to \$986 in Q3 2018 due to higher option exercises inflow.

### **Cash flow discussion for the nine-month period ended September 30, 2019 compared to September 30, 2018**

The cash outflow for operating activities was \$1,026,092, a decrease of \$335,149 (September 30, 2018 – \$1,361,241), due to lower operating costs as described in the variance analysis.

Cash inflows from financing activities of \$960,479 reflect lower inflow from private placements of \$875,816 when compared to 2018, which was partially offset by higher inflows from option exercises of \$81,189, resulting in a decrease of \$960,479 when compared to 2018 of \$1,755,106.

### **Financial Position**

#### *Cash*

The Company's cash position decreased during the nine-month period by \$65,613 to \$219,144 (December 31, 2018 - \$284,757) due to lower private placement and option exercises.

#### *Prepaid expenses and receivables*

Prepaid expenses and accounts receivable decreased by \$24,198 to \$14,753 due to draw downs on prepaid insurance and lower expenditures in Australia and Canada where goods and services taxes are levied (December 31, 2018 - \$38,951).

#### *Property and equipment*

Property and equipment consist of computer equipment at the Sparks, Nevada office. The decrease of \$1,730 to \$7,544 (December 2018 - \$9,274) is due to amortization of that computer equipment in the nine-month period.

### *Mineral interests*

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

### *Accounts payable, accrued liabilities and accounts payable with related parties*

Accounts payable has increased by \$156,626 to \$303,212 (December 2018– \$146,586) due largely to deferral of salaries and consulting fees.

### *Capital Stock*

Capital stock increased by \$1,131,350 to \$109,375,661 due to a private placement occurring in the nine-month period and the exercise of stock options (December 31, 2018 - \$108,244,311).

Additional paid-in capital increased by \$256,609, to \$5,932,421 (December 31, 2018 - \$5,675,812) as a result of the expensing of stock options which was partially offset by the exercise of stock options.

## **Liquidity and Capital Resources**

At September 30, 2019, the Company had a working capital of \$(69,315) including cash of \$219,144 as compared to a working capital of \$177,122 including cash of \$284,757 at December 31, 2018.

At September 30, 2019, the Company had a total of 29,910,000 stock options exercisable between CAD\$0.10 and CAD\$0.60 that have the potential upon exercise to generate a total of C\$5,774,250 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 control measures to conserve cash to meet its operational obligations.

### **Outstanding share data**

At the date of this report, the Company has 312,482,595 issued and outstanding common shares and 34,910,000 stock options currently outstanding at a weighted average exercise price of CAD\$0.19.

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

At September 30, 2019, 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 9-month period ended September 30, 2019, the Company expensed \$314,104 for stock-based compensation for stock options issued to Company directors. 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, 2019, the Company paid a consulting fee of \$76,500 to one of its directors. During the 9-month period ended September 30, 2018, the Company paid a consulting fee of \$76,500 to one of its directors.

As at September 30, 2019, the Company owed \$150,924 to various directors and officers of the Company. (December 31, 2018 - \$Nil)

## **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 principles 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 2019-01 – Leases (Topic 842) Codification Improvements - Issue 3 Transition Disclosures Related to Topic 250, Accounting Changes and Error Corrections. The amendments in this Update clarify the Board's original intent by explicitly providing an exception to the paragraph 250-10-50-3 interim disclosure requirements in the Topic 842 transition disclosure requirements. The effective date is for fiscal years beginning after December 15, 2019, and interim

periods within fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact this guidance will have on its financial statements.

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 has adopted the election to recognize short-term leases through profit or loss, with no material effect to the 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 has adopted this policy which had no material effect to the consolidated 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: (i) one in Vancouver, British Columbia, Canada, (ii) one in Mackay, Queensland, Australia, and (iii) one in Chicago, Illinois, United States.

### **Information Regarding Forward-Looking Statements**

This Management's Discussion and Analysis of Financial Condition and Results of Operations contain certain forward-looking statements. Forward-looking statements include but are not limited to those with respect to the prices of metals, the estimation of mineral resources and reserves, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage and the timing and possible outcome of pending litigation. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Scandium International to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such risks and uncertainties include, among others, the actual results of current exploration activities, conclusions or economic evaluations, changes in project parameters as plans continue to be refined, possible variations in grade and or recovery rates, failure of plant, equipment or processes to operate as anticipated, accidents, labor disputes or other risks of the mining industry, delays in obtaining government approvals or

financing or incompleteness of development or construction activities, risks relating to the integration of acquisitions, to international operations, and to the prices of metals. While Scandium International has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Scandium International expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **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.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

On February 6th, 2019, the Company's Australian subsidiary was served a Summons and named as a Defendant in a lawsuit brought by the Law Firm of Nelson, Keane and Hemmingway, on behalf of Plaintiff, Owen Bernard Carter, a landowner in Nyngan, NSW. The Company's subsidiary, EMC Metals Australia Pty Ltd (EMC-A) is the Company's subsidiary which held disputed Mining Lease ML 1763, related to the Nyngan Scandium Project.

The lawsuit claims NSW governmental officials improperly granted EMC-A a mining lease in 2017. Counsel for the Government defendants conceded the point, and re-determined ML 1763 to 'Invalid' status.

On July 24, 2019 the Company announced that a new mine lease ("ML 1792") had been granted to EMC-A by the Department, for the Nyngan Scandium Project. The Court proceeding brought by the landowner is now resolved, EMC-A has no further obligations related to the lawsuit, and no claims for compensation have been made against EMC-A.

While the new ML covers only a portion of the total area originally covered by the prior ML, the Company maintains it can construct and operate a scandium mine of similar scale to our current plans, within that reduced footprint.

Please refer to more a detailed discussion of the mine lease grant and landowner objection contained in Item 2 – Principle Properties Review, Nyngan Scandium Project in this Form 10Q.

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

Not applicable.

### **Item 3. Defaults Upon Senior Securities.**

Not applicable.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

Not applicable.

### **Item 6. Exhibits**

- 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 three months ended November 30, 2019, 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: November 12, 2019

**SCANDIUM INTERNATIONAL MINING CORP.**  
(Registrant)

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

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