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Scandium International Mining Co. Breaks Ahead of the Pack

Could it be that we're starting to see some signs of life in pockets of the metals space? One such pocket involves scandium, a metal which I have written favorably on many times in recent years. The size of the global market (possibly 10 to 15 tonnes – about \$40,000,000) and number of players (fewer than five) has kept investor interest at bay and really led to the chicken and egg problem [I've discussed](#).

Fortunately, that may be changing. Recently, I've written about a few potential survival strategies for junior mining companies looking to survive what could be a few more years of sideways to down markets. These include embracing technology to lower operating expenditures or creating your own high tech value chain.

It appears that Scandium International Mining Corp (SCY:TSX, SCYYF:OTCBB) has opted for the latter course of action with a promising Memorandum of Understanding (MoU) and off take agreement.

The MoU calls for a strategic alliance between SCY and ALCERECO, a privately held materials science company in Ontario with the aim of researching and developing markets for aluminum-scandium alloys. Please note I am long SCYYF. While the news of a MoU is positive in itself, the real catalyst is the fact that the two companies have signed an off take agreement. While most MoUs aren't worth the paper they're written on, the off take announcement here really puts SCY in a much different light. The agreement calls for a total of 7,500 kg of scandia (Sc_2O_3) per year commencing in 2017 for a three year period. Given that SCY has potential to produce over 35,000 kg Sc_2O_3 per year as per its most recent PEA, this allows SCY to find additional partners and diversify its end user relationships. ALCERECO will focus on innovation in the uses of scandia.

Of course, one of the most important metrics, pricing of the Sc_2O_3 , remains confidential and this is for good reason. The size of the scandia market renders its pricing structure necessarily opaque. Nobody I have spoken with really knows what the "true" price of scandia is today. Why would SCY or ALCERECO make public the pricing details if it would effectively "set" the market and offer the competition and analysts a metric with which to compare various projects and the resulting

economics? Management on both sides is wise to keep the off take pricing (which is stated as both fixed and variable in nature) as confidential.

That said, I think there is value in a pro forma analysis to try and gauge exactly what this deal is worth. Using the numbers from the PEA and some assumptions I make, I project that SCY can generate roughly \$23,000,000 in operating income for the three years of the agreement. With a projected capital expenditure at Nyngan of \$78,000,000, the ability to show potential lenders what cash flow projections may look like in the early years of the life of the mine should put to rest any fears. This is an economic deposit of a rare but valuable metal poised for significant growth in a well-known geopolitical jurisdiction. The idea of “if you build it, they will come” has now been cast aside for scandia.

SCY does have \$2.5 million in convertible debt from a private investor group on its balance sheet due at the end of this year. This is a blemish in an otherwise strong story. This debt can be converted to a 20% JV interest in Nyngan and Honeybugle (another scandium property which I don’t think the company gets any value for) if SCY raises \$3,000,000 in equity – a portion of which has been raised. So while the proverbial clock is ticking for SCY, the news of this MoU and off take can’t help but shine a light on the strategic significance of scandia and SCY’s burgeoning role as a provider of the material. While this won’t necessarily make raising a total of \$3,000,000 a fait accompli, it certainly can’t hurt.

The SCY-ALCERECO tie up aims to create a sustainable value chain for a niche metal where one currently doesn’t exist. ALCERECO can now forge into nascent markets for Al-Sc alloys and SCY can push forward to strengthen its balance sheet and focus on arranging the approximate \$77 million in cap ex to build its Nyngan scandium project in Australia.

No other scandium play offers this much transparency, management savvy, and most importantly upside and, as such, remains one of my top picks in the Energy Metals sector.

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