EMC METALS CORP.
Form 10-Q
May 14, 2012

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2012**

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from _________ to ___________

000-54416
(Commission File Number)

EMC METALS CORP.
(Exact name of registrant as specified in its charter)

British Columbia, Canada	**98-1009717**
(State or other jurisdiction of incorporation or organization)	(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 [**X**] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [**X**] No [ ]

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

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

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date:
As of May 1, 2012, the registrant s outstanding common stock consisted of 150,678,713 shares.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

(An Exploration Stage Company)

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

QUARTER ENDED MARCH 31, 2012

EMC Metals Corp.
(An Exploration Stage Company)
CONDENSED CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars) (Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current		
Cash	$ 1,066,375	$ 804,892
Investments in trading securities, at fair value (Note 3)	2,250	2,250
Prepaid expenses and receivables	201,666	192,158
Total Current Assets	1,270,291	999,300
Restricted cash (Note 4)	159,400	159,400
Property, plant and equipment (Note 5)	30,606,257	30,676,426
Mineral interests (Note 6)	2,288,479	679,711
Total Assets	$ 34,324,427	$ 32,514,837
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Accounts payable and accrued liabilities	$ 443,323	$ 550,081
Current portion of promissory notes payable (Note 9)	511,472	529,752
Total Current Liabilities	954,795	1,079,833
Convertible debenture (Note 10)	1,620,674	-
Promissory notes payable (Note 9)	4,646,121	3,813,750
Total Liabilities	7,221,590	4,893,583
Stockholders Equity		
Capital stock (Note 11) (Authorized: Unlimited number of shares; Issued and outstanding: 150,678,713 (2011 150,678,713))	88,578,045	88,578,045
Treasury stock (Note 12)	(1,343,333)	(1,343,333)
Additional paid in capital (Note 11)	1,763,773	1,476,285
Deficit accumulated during the exploration stage	(61,895,648)	(61,089,743)
Total Stockholders Equity	27,102,837	27,621,254
Total Liabilities and Stockholders Equity	$ 34,324,427	$ 32,514,837

Nature and continuance of operations (Note 1)

Subsequent event (Note 15)

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

EMC Metals Corp.
(An Exploration Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars) (Unaudited)

	Cumulative amounts from incorporation on July 17, 2006 to March 31, 2012	Quarter ended March 31, 2012	Quarter ended March 31, 2011
EXPENSES			
Amortization	$ 2,354,388	$ 70,169	$ 88,638
Consulting	2,286,946	14,705	81,299
Exploration	14,763,499	337,794	63,491
General and administrative	7,363,545	82,082	37,200
Insurance	970,675	12,797	12,367
Professional fees	3,135,237	84,221	22,336
Research and development	3,474,068	-	-
Salaries and benefits	6,871,651	162,462	150,655
Stock-based compensation (Note 11)	5,452,335	38,660	67,732
Travel and entertainment	1,640,304	30,337	58,879
Loss before other items	(48,312,648)	(833,227)	(582,597)
OTHER ITEMS			
Foreign exchange gain	636,918	111,281	77,646
Loss on transfer of marketable securities	(3,115,889)	-	-
Gain on settlement of convertible debentures	1,449,948	-	-
Gain on sale of marketable securities	1,836,011	-	-
Write-off of mineral interests	(18,091,761)	-	-
Write-off of land and water rights	(3,100,000)	-	-
Gain on insurance proceeds	972,761	-	-
Interest income (expense)	163,259	(83,959)	(71,240)
Other income	502,965	-	-
Gain on disposition of assets	959,281	-	-
Change in fair value of derivative liability (Note 8)	485,358	-	228,741
Unrealized gain on marketable securities	53,830	-	-
	(17,247,319)	27,322	235,147
Loss before income taxes	(65,559,967)	(805,905)	(347,450)
Deferred income tax recovery	6,522,138	-	-
Loss and comprehensive loss for the period	$ (59,037,829)	$ (805,905)	$ (347,450)
Basic and diluted loss per common share		(0.01)	(0.00)

Weighted average number of common shares outstanding	150,678,713	149,863,023

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

EMC Metals Corp.
(An Exploration Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars) (Unaudited)

	Cumulative amounts from incorporation on July 17, 2006 to March 31, 2012	Quarter ended March 31, 2012	Quarter ended March 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period	$ (59,037,829)	$ (805,905)	$ (347,450)
Items not affecting cash:			
Amortization	2,354,388	70,169	88,638
Research and development	3,474,068	-	-
Consulting paid with common shares	10,711	-	-
Gain on disposal of assets	(959,281)	-	-
Convertible debenture costs	(1,312,878)	-	-
Unrealized foreign exchange	705,737	(81,375)	(118,022)
Stock-based compensation	5,452,335	38,660	67,732
Unrealized gain on marketable securities	(53,830)	-	-
Realized gain on marketable securities	(1,836,011)	-	-
Write-off of mineral properties	18,091,761	-	-
Write-off of land and water rights	3,100,000	-	-
Realized loss on transfer of marketable securities	3,115,889	-	-
Change in fair value of derivative liability	(485,358)	-	(228,741)
Deferred income tax recovery	(6,522,138)	-	-
Accrued interest expense	12,722	(8,530)	-
Accrued interest income	(2,809)	-	-
	(33,892,523)	(786,981)	(537,843)
Changes in non-cash working capital items:			
Increase in prepaids and receivables	(135,116)	(9,508)	(142,315)
Decrease in accounts payable and accrued liabilities	(619,586)	(106,758)	38,766
Increase in due to related parties	1,163,028	-	-
Asset retirement obligations	(1,065,891)	-	-
	(34,550,088)	(903,247)	(641,392)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash acquired from subsidiary	4,857,012	-	-
Cash paid for Subsidiary	(11,359,511)	-	-
Spin-out of Golden Predator Corp.	(76,388)	-	-
Restricted cash	(159,400)	-	-
Reclamation bonds	795,785	-	-
Proceeds from sale of marketable securities, net	(4,135,798)	-	-
Proceeds from sale of property, plant and equipment	675,742	-	-
Purchase of property, plant and equipment	(21,255,448)	-	(20,548)

Proceeds from sale of mineral interests	500,000	-	-
Additions to unproven mineral interests	(4,782,286)	(1,608,768)	-
	(34,940,292)	(1,608,768)	(20,548)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common shares issued	55,521,421	-	210,249
Share issuance costs	(1,277,713)	-	-
Special warrants	13,000,000	-	-
Options exercised	384,900	-	43,000
Warrants exercised	11,164,849	-	267,625
Notes payable	(9,966,000)	-	-
Receipt (payment) of promissory note	997,000	997,000	-
Convertible debenture	1,994,000	1,994,000	-
Debt issuance costs	(217,502)	(217,502)	-
Payment of promissory note	(1,260,700)	-	-
Advances from related party	216,500	-	-
Loans advanced to Midway	(2,000,000)	-	-
Loan repayment from Midway	2,000,000	-	-
	70,556,755	2,773,498	520,874
Change in cash during the period	1,066,375	261,483	(141,066)
Cash, beginning of period	-	804,892	4,126,424
Cash, end of period	$ 1,066,375	$ 1,066,375	$ 3,985,358

Supplemental disclosure with respect to cash flows (Note 14)

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

EMC Metals Corp.
(An Exploration Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(Expressed in Canadian Dollars) (Unaudited)

	Capital Stock Capital Stock Number of Shares	Amount $	Additional Paid in Capital $	Treasury $	Deficit Accumulated During the Exploration Stage $	Total $
Balance, July 17, 2006	-	-	-	-	-	-
Private placements	5,000,000	3,500,000	-	-	-	3,500,000
Excess of exchange amount over carrying amount of Springer Mining Company	-	-	-	-	(2,857,819)	(2,857,819)
Loss for the period	-	-	-	-	(357,670)	(357,670)
Balance, December 31, 2006	5,000,000	3,500,000	-	-	(3,215,489)	284,511
Private placements	17,577,500	35,155,000	-	-	-	35,155,000
Conversion of special warrants	5,390,000	5,390,000	-	-	-	5,390,000
Exercise of warrants	50,000	75,000	-	-	-	75,000
Share issuance costs broker s fees	-	(1,215,074)	99,000	-	-	(1,116,074)
Share issuance costs shares issued	100,000	100,000	-	-	-	100,000
Shares issued for mineral properties	100,000	100,000	-	-	-	100,000
Stock-based compensation	40,000	40,000	489,562	-	-	529,562
Loss for the year	-	-	-	-	(6,128,912)	(6,128,912)
Balance, December 31,	28,257,500	43,144,926	588,562	-	(9,344,401)	34,389,087

2007						
Private placements	5,322,500	10,645,000	-	-	-	10,645,000
Conversion of special warrants	7,610,000	7,610,000	-	-	-	7,610,000
Share issuance costs broker s fees	-	(261,638)	-	-	-	(261,638)
Shares issued for mineral properties	110,000	210,000	-	-	-	210,000
Acquisition of Gold Standard Royalty Corp.	2,050,000	4,100,000	143,017	-	-	4,243,017
Acquisition of Great American Minerals Inc.	1,045,775	2,091,550	426,672	-	-	2,518,222
Acquisition of Fury Explorations Ltd.	10,595,814	13,774,558	7,787,783	(2,087,333)	-	19,475,008
Exercise of stock options	6,637,224	10,027,915	(184,265)	-	-	9,843,650
Shares issued for repayment of promissory note	4,728,000	2,364,000	-	-	-	2,364,000
Stock-based compensation	-	-	2,324,458	-	-	2,324,458
Loss for the year	-	-	-	-	(17,968,454)	(17,968,454)
Balance, December 31, 2008	66,356,813	93,706,311	11,086,227	(2,087,333)	(27,312,855)	75,392,350
Private placements	14,500,000	1,190,000	-	-	-	1,190,000
Exercise of stock options	101,000	126,186	(105,986)	-	-	20,200
Shares issued for mineral properties	2,765,643	367,695	-	-	-	367,695
Settlement of convertible debentures	7,336,874	2,934,752	62,903	-	-	2,997,655
Shares issued for consulting	89,254	10,711	-	-	-	10,711
Shares issued for acquisition of TTS	19,037,386	2,094,112	-	-	-	2,094,112

Stock-based compensation before spin-out	-	-	836,240	-	-	836,240
Spin-out of GPD	-	(18,540,194)	(11,879,384)	-	-	(30,419,578)
Stock-based compensation after spin-out	-	-	979,611	-	-	979,611
Loss for the year	-	-	-	-	(21,645,581)	(21,645,581)
Balance, December 31, 2009	110,186,970	81,889,573	979,611	(2,087,333)	(48,958,436)	31,823,415
Private placements	30,252,442	4,700,312	454,768	-	-	5,155,080
Exercise of stock options	1,320,000	456,602	(226,302)	-	-	230,300
Exercise of warrants	7,300,000	1,092,000	-	-	-	1,092,000
Stock-based compensation	-	-	795,268	-	-	795,268
Loss for the year	-	-	-	-	(4,722,755)	(4,722,755)
Balance, December 31, 2010	149,059,412	88,138,487	2,003,345	(2,087,333)	(53,681,191)	34,373,308
Exercise of stock options	250,000	118,959	(75,959)	-	-	43,000
Exercise/expiry of warrants	1,369,301	320,599	(744,000)	744,000	-	320,599
Stock-based compensation	-	-	292,899	-	-	292,899
Loss for the year	-	-	-	-	(7,408,552)	(7,408,552)
Balance, December 31, 2011	150,678,713	88,578,045	1,476,285	(1,343,333)	(61,089,743)	27,621,254
Stock-based compensation			38,660			38,660
Issue of convertible debenture warrants			248,828			248,828
Loss for the period					(805,905)	(805,905)
Balance, March 31, 2012	150,678,713	88,578,045	1,763,773	(1,343,333)	(61,895,648)	27,102,837

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

EMC Metals Corp.
(An Exploration Stage Company)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012
(Expressed in Canadian Dollars) (Unaudited)

1. NATURE AND CONTINUANCE OF OPERATIONS

EMC Metals Corp. (the Company) is incorporated under the laws of the Province of British Columbia. The Company is focused on specialty metals exploration and production and has recently acquired various metallurgical technologies and licenses that it is utilizing to gain access to a number of specialty metals opportunities.

The Company s principal properties are located in the state of Nevada, Australia, and Norway. The Company s principal asset, the

Springer Tungsten mine and mill, is currently on care and maintenance pending a sustained improvement in tungsten prices. To March 31, 2012, the Company has not commenced production and has generated no revenue. The Company s remaining properties are in the exploration or pre-exploration stage. As such, the Company is in the exploration stage and anticipates incurring significant expenditures prior to commencement of contract milling operations.

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 refit its Springer tungsten mill and earn its 50% interest in 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 or maintaining continued support from its shareholders and creditors. The Company is currently working on securing additional financing to meet its needs, including a US$500,000 payment due in June 2012; however there is no guarantee that these efforts will be successful. In the event that additional financial support is not received or operating profits are not generated, the carrying values of the Company s ass ets may be adversely affected. The inability to raise additional financing may affect the future assessment of the Company as a going concern.

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 EMC Metals Corp. (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 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, 2011, in our Annual Report on Form 10-K filed with the SEC on February 14, 2012. Operating results for the three- month period ended March 31, 2012, are not necessarily indicative of the results for the year ending December 31, 2012.

Use of estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

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, convertible debentures and promissory notes payable are carried at cost, which management believes approximates fair value due to the short term nature of these instruments. Investments in trading securities are classified as held for trading, with unrealized gains and losses being recognized in income.

EMC Metals Corp.
(An Exploration Stage Company)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012
(Expressed in Canadian Dollars) (Unaudited)

2. BASIS OF PRESENTATION (cont d)

The following table presents information about the assets that are measured at fair value on a recurring basis as of March 31, 2012, 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:

Fair value of financial assets and liabilities

	March 31, 2012	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Cash and restricted cash	$ 1,225,775	$ 1,225,775	$	$
Investments in trading securities	$ 2,250	$ 2,250	$	$
Total	$ 1,228,025	$ 1,228,025	$	$

The fair values of cash, restricted cash and investments in trading securities are determined through market, observable and corroborated sources.

Recently Adopted and Recently Issued Accounting Standards

The Company reviewed significant newly issued accounting pronouncements and concluded that they are either not applicable to the

Company s business or that no material effect is expected on the consolidated financial statements as a result of future adoption.

3. INVESTMENTS IN TRADING SECURITIES

At March 31, 2012, the Company held investments classified as trading securities, which consisted of various equity securities. All trading securities are carried at fair value. As of March 31, 2012, the fair value of trading securities was $2,250 (December 31, 2011 - $2,250).

March 31, 2012			December 31, 2011		
Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value

Land and water rights	$ 4,673,958	$ -	$ 4,673,958	$ 4,673,958	$ -	$ 4,673,958
Plant and equipment	25,618,528	-	25,618,528	25,618,528	-	25,618,528
Cosgrave plant and equipment	375,763	322,096	53,667	375,763	303,308	72,455
Building	222,685	49,223	173,462	222,685	46,438	176,247
Automobiles	179,767	161,714	18,053	179,767	159,432	20,335
Computer equipment	364,697	364,004	693	364,697	363,888	809
Small tools and equipment	963,537	903,079	60,458	963,537	863,583	99,954
Office equipment	134,691	127,253	7,438	134,691	120,551	14,140
	$ 32,533,626	$ 1,927,369	$ 30,606,257	$ 32,533,626	$ 1,857,200	$ 30,676,426

Land and water rights are in respect of properties in Nevada. The plant and equipment is comprised of the Springer Plant and Mill in Nevada which is currently under care and maintenance.

Impairment of land and water rights

During the year ended December 31, 2011, the Company reviewed the carrying value of its land and water rights for impairment and compared the carrying value to the estimated recoverable amount and wrote down its land and water rights by $3,100,000.

EMC Metals Corp.
(An Exploration Stage Company)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012
(Expressed in Canadian Dollars) (Unaudited)

6. MINERAL INTERESTS

March 31, 2012	Other	Tungsten	Total
Acquisition costs			
Balance, December 31, 2011	$ 482,260	$ 197,451	$ 679,711
Additions	1,608,768	-	1,608,768
Sold	-	-	-
Balance, March 31, 2012	$ 2,091,028	$ 197,451	$ 2,288,479

December 31, 2011	Other	Tungsten	Total
Acquisition costs			
Balance, December 31, 2010	$ 300,000	$ 203,020	$ 503,020
Additions	182,260	2,534	184,794
Sold	-	(8,103)	(8,103)
Balance, December 31, 2011	$ 482,260	$ 197,451	$ 679,711

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.

TUNGSTEN PROPERTY

Springer Property

On November 21, 2006, the Company acquired all outstanding and issued shares of Springer Mining Company (Springer).

Included in the assets of Springer and allocated to property, plant and equipment (Note 5) are the Springer Mine and Mill located in Pershing County, Nevada.

Fostung Property

The Company held a 100% interest certain mineral claims known as the Fostung Property, Ontario. During the year ended December 31, 2011, the Company sold these claims for $500,000 and recorded a gain on the sale of $491,897.

SCANDIUM PROPERTY

Nyngan, New South Wales Property

On February 5, 2010, the Company entered in to an agreement with Jervois Mining Limited (Jervois) whereby it would acquire a 50% interest in certain properties located in New South Wales, Australia. In order for the Company to earn its interest which is subject to a 2% Net Smelter Royalty (NSR), the Company paid the sum of $300,000 into escrow, that was released to Jervois upon satisfaction of certain conditions precedent, including verification of title to the Nyngan property and approval of the Toronto Stock Exchange, and must:

a) Incur exploration and metallurgical work of A$500,000 (CAD$466,000) within 180 business days of the conditions precedent being satisfied, or pay cash in lieu thereof. On September 29, 2010 the Company received a six month extension to complete its exploration commitment. In the event that the Company wishes to continue the joint venture, the Company must deliver a feasibility study within 480 (extended to February 28, 2012) business days of the conditions precedent being satisfied, failing which the agreement will terminate.

b) Upon delivering the feasibility study to Jervois, pay to Jervois an additional A$1,300,000 plus GST at which time it will be granted a 50% interest in the joint venture. The joint venture agreement provides for straight-line dilution, with interests diluted below 10% being converted into a 2% NSR royalty.

EMC Metals Corp.
(An Exploration Stage Company)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012
(Expressed in Canadian Dollars) (Unaudited)

6. MINERAL INTERESTS (cont d

c) On February 24, 2012, the Company delivered to Jervois the A$1.43 million cash payment and an independent NI 43-101 report entitled "***Technical Report on the Feasibility of the Nyngan Scandium Project***" dated February 23, 2012 (the "Report"), which was compiled by SNC-Lavalin. The Report was delivered to Jervois following an extensive discussion and presentation to the Jervois Board and management.

On February 27, 2012 EMC, received written notice from Jervois rejecting the Report for the stated reason that the Report does not fall within the definition of "Feasibility Study" provided in the Agreement. The Company believes that it has fully met the conditions under the Agreement to earn its 50% joint venture interest in the Project and will take all lawful steps to secure its proprietary rights to the 50% joint venture interest.

On March 23, 2012, the Company announced that, following discussions with Jervois, the parties have agreed to engage in further without prejudice communications in an attempt to resolve the dispute. If at any time it becomes apparent that a resolution satisfactory to both parties will not be reached, we will immediately continue formal steps under the dispute resolution provisions of the JV agreement.

EMC Metals Corp.
(An Exploration Stage Company)
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012
(Expressed in Canadian Dollars) (Unaudited)

9. PROMISSORY NOTES PAYABLE

	March 31, 2012	December 31, 2011
Promissory note with a principal balance of US$500,000, bearing interest at prime per annum, maturing June 30, 2012 due to a director of the Company secured by the stock of a subsidiary company.	$ 511,472	$ 529,752
Promissory note with a principal balance of US$ 3,750,000, bearing interest at 6% per annum, maturing July 3, 2013 and secured by land and water rights. During fiscal 2008 the Company entered into a promissory note for US$6,750,000 as consideration for the acquisition of land and water rights. The Company subsequently made principal payments of US$3,000,000 consisting of a cash payment of US$1,000,000 and 4,728,000 units of the Company equity valued at US$2,000,000. Each unit consisted of one common share and one-half share purchase warrant exercisable at CDN$0.75 each and exercisable for a period of two years.	3,740,625	3,813,750
During the quarter ended March 31, 2012 the Company completed a USD$3,000,000 loan financing (note 11) which included a USD $1,000,000 note payable bearing interest at 7% per annum maturing August 15, 2013. Presented is this principle balance less financing and costs which are amortized over the term of the debt using the interest method. This resulted in a carrying amount of $905,496 upon deducting a debt discount of $92,004 from the principal balance of $997,500 (USD $1,000,000).	905,496	
	5,157,593	4,343,502
Less: current portion	(511,472)	(529,752)
	$ 4,646,121	$ 3,813,750

10. CONVERTIBLE DEBENTURE

On February 17, 2012, the Company completed a USD $3,000,000 loan financing consisting of a term loan of USD $1,000,000 (Note 9), a convertible debenture of USD $2,000,000 and warrants to acquire 3,000,000 common shares. The convertible debenture has a maturity date of August 15, 2013 and bears interest at 7% per annum. The lender may convert a maximum of USD $2,000,000 of the principal amount of the loan into

10,000,000 common shares of the Company. There was no beneficial conversion feature associated with the conversion option. The warrants are exercisable at $0.20 per share expiring February 15, 2014. A relative fair value of $217,267 was assigned to the warrants and recorded in additional paid in capital. The Company paid financing cost of $149,550 and also issued 750,000 purchase warrants exercisable at $0.20 per share expiring February 15, 2014. These warrants were valued at $58,716 and recorded in additional paid in capital. The financing costs were allocated between debt and the equity components. This resulted in a carrying amount of $1,620,674 upon deducting a debt discount of $374,316 from the principal balance of $1,995,000 (USD $2,000,000).

11. CAPITAL STOCK AND ADDITIONAL PAID IN CAPITAL

On December 3, 2010, the Company issued 18,929,740 common shares at a value of $0.19 per common share for total proceeds of $3,596,651.A total of $210,249 was received during fiscal 2011.

On November 25, 2010, the Company issued 6,100,000 units at a value of $0.10 per unit for total proceeds of $610,000. Each unit consisted of one common share and one-half of one share purchase warrant exercisable at $0.18 expiring on November 25, 2011. The warrants have a calculated total fair value of $142,358 using the Black-Scholes pricing model with a volatility of 142.52%, risk- free rate of 1.73%, expected life of 1 year, and a dividend rate of 0%.

On June 30, 2010, the Company issued 2,947,702 units at a value of $0.10 per unit for total proceeds of $294,770. Each unit consisted of one common share and one-half of one share purchase warrant exercisable at $0.18 until June 30, 2011. The warrants have a calculated total fair value of $35,638 using the Black-Scholes pricing model with a volatility of 123.84%, risk-free rate of 1.39%, expected life of 1 year, and a dividend rate of 0%.

On February 17, 2010, the Company issued 2,275,000 units at a value of $0.20 per unit for total proceeds of $455,000. Each unit consisted of one common share and one-half of one share purchase warrant exercisable at $0.25 until February 17, 2011. The warrants have a calculated total fair value of $78,113 using the Black-Scholes pricing model with a volatility of 131.19%, risk-free rate of 1.34%, expected life of 1 year, and a dividend rate of 0%. All of the warrants were exercised during fiscal 2011.

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11. CAPITAL STOCK AND ADDITIONAL PAID IN CAPITAL (cont d)

On November 17, 2009, the Company issued 13,000,000 units at a value of $0.08 per unit for total proceeds of $1,040,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each full warrant entitled the holder to purchase an additional share at $0.15 per share until November 17, 2010.

On October 13, 2009, the Company issued 500,000 common shares at a value of $45,000 for the Fostung Tungsten project.

On August 27, 2009, the Company issued 1,500,000 units at a value of $0.10 per unit, pursuant to a non-brokered private placement for proceeds of $150,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each full warrant entitled the holder to purchase an additional share at $0.15 per share until August 27, 2010.

On May 13, 2009, the Company issued 89,254 common shares at a value of $0.12 per share to a consultant for settlement of consulting fees for Fury Explorations Ltd. (Fury), a subsidiary of GPD, under the plan of Arrangement of spin-out. On April 21, 2009, the Company issued 51,859 common shares at a value of $0.10 per share for the Platte River property.

On January 21, 2009, the Company issued 66,784 common shares at a value of $0.20 per share for the Guijoso property for Fury.

On January 6, 2009, the Company issued 2,147,000 common shares at a value of US$250,000 for the Adelaide and Tuscarora projects for Golden Predator Mines US Inc., a wholly owned subsidiary of the Company prior to the spin-out.

On November 17, 2008, the Company issued 76,274 common shares in connection with the acquisition of the subsidiary, Great American Minerals Inc.

On October 18, 2008, the Company issued 4,728,000 units to Cosgrave for repayment of a promissory note at a value of US$2,000,000. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant with a two year life and exercisable at $0.75.

In July 2008, the Company completed a private placement consisting of 2,500,000 common shares at $2.00 per share for proceeds of $5,000,000. In connection with this private placement the Company paid a finder s fee of $250,000.

In January 2008, the Company completed a private placement consisting of 2,822,500 units at $2.00 per unit for gross proceeds of $5,645,000. Included in the proceeds was $3,620,000 received in advance as of December 31, 2007. Each unit consisted of one common share and one half of one share purchase warrant. Each whole warrant entitled the holder to acquire one additional common share at $3.00 for a period of 12 months.

In November 2007, the Company completed private placements consisting of 17,577,500 units at $2.00 per unit for proceeds of $35,155,000. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitled the holder to acquire one additional common share at $3.00 for a period of 12 months following the closing of the placement.

In December 2007, the Company issued 5,390,000 common shares pursuant to the conversion of special warrants. The Company paid $1,016,074 and issued 100,000 common share valued at $100,000 as issuance costs and finder s fees. The Company also granted warrants to acquire 300,000 common shares exercisable at $1.50 expiring September 22, 2008. The warrants were valued at $99,000 with the Black-Scholes option pricing model using an expected volatility of 115%, life of one year, a risk free interest rate of 4% and a dividend yield of 0%.

In December 2006, the Company issued 5,000,000 common shares at $0.70 per common share for gross proceeds of $3,500,000.

Stock Options and Warrants

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 five years from the date of grant and vesting is determined by the Board of Directors.

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11. CAPITAL STOCK AND ADDITIONAL PAID IN CAPITAL (cont d)

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants			Stock Options		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding, December 31, 2010	23,792,485	$	1.82	11,473,750	$	0.18
Granted	-		-	1,470,000		0.28
Cancelled	(22,423,184)		1.97	(845,000)		0.22
Exercised	(1,369,301)		0.24	(250,000)		0.17
Outstanding, December 31, 2011	-		-	11,848,750		0.19
Granted	3,750,000		0.20	-		-
Cancelled	-		-	-		-
Exercised	-		-	-		-
Outstanding, March 31, 2012	3,750,000	$	0.20	11,848,750	$	0.19
Number currently exercisable	3,750,000	$	0.20	10,658,750	$	0.19

As at March 31, 2012, incentive stock options were outstanding as follows:

	Number of options		Exercise Price	Expiry Date
Options	332,500	$	0.200	July 26, 2012
	5,000		1.000	July 26, 2012
	40,000		0.200	October 4, 2012
	15,000		1.000	October 4, 2012
	220,000		0.390	January 18, 2013

	152,500	0.200	February 25, 2013
	100,000	2.000	February 25, 2013
	100,000	0.200	March 4, 2013
	115,000	0.200	May 13, 2013
	5,000	2.150	May 13, 2013
	50,000	0.200	June 2, 2013
	30,000	0.200	August 20, 2013
	725,000	0.200	October 31, 2013
	997,500	0.300	January 23, 2014
	50,000	0.300	February 26, 2014
	1,395,000	0.160	June 16, 2014
	225,000	0.120	August 27, 2014
	50,000	0.160	December 14, 2014
	200,000	0.105	December 16, 2014
	1,071,250	0.250	January 4, 2015
	4,800,000	0.100	November 5, 2015
	120,000	0.310	April 27, 2013
	250,000	0.315	May 4, 2016
	500,000	0.250	May 16, 2016
	300,000	0.155	September 15, 2016
	11,848,750		

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11. CAPITAL STOCK AND ADDITIONAL PAID IN CAPITAL (cont d)

As at March 31, 2012, warrants were outstanding as follows;

Warrants	Number of Warrants		Exercise Price	Expiry Date
	3,750,000	$	0.200	February 15, 2014

Stock-based compensation

During the quarter ended March 31, 2012, the Company recognized stock-based compensation of $38,660 (March 31, 2011 - $67,732) in the statement of operations as a result of incentive stock options vested in the current quarter. There were no stock options issued during the quarter ended March 31, 2012.

The fair value of all compensatory options and warrants 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:

	2012	2011
Risk-free interest rate	1.20%	2.33%
Expected life	2 years	4.39 years
Volatility	119.67%	126.61%
Forfeiture rate	0.00%	0.00%
Dividend rate	0.00%	0.00%

12. TREASURY STOCK

	Number		Amount
Treasury shares, March 31, 2012	1,033,333	$	1,343,333
	1,033,333	$	1,343,333

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

13. SEGMENTED INFORMATION

The Company s mineral properties are located in Norway, Australia, and the United States and its capital assets geographic information is as follows:

March 31,2012		Norway		Australia		United States		Total
Property, plant and equipment	$	-	$	-	$	30,606,257	$	30,606,257
Mineral properties		247,484		1,843,544		197,451		2,288,479
	$	247,484	$	1,843,544	$	30,803,708	$	32,894,736

December 31,2011	Norway	Australia	United States	Total
Property, plant and equipment	$ -	$ -	$ 30,676,426	$ 30,676,426
Mineral properties	182,260	300,000	197,451	679,711
	$ 182,260	$ 300,000	$ 30,873,877	$ 31,356,137

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14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

		2012		2011
Cash paid during the quarter for interest	$	102,212	$	71,240
Cash paid during the year for income taxes	$	-	$	-

Significant non-cash transactions for the period ended March 31, 2012 include the Company granting 750,000 share purchase warrants at a value of $58,510 as finder s fees pursuant to the promissory note and convertible debenture financings.

There were no significant non cash transactions for the quarter ended March 31, 2011.

15. SUBSEQUENT EVENT

Subsequent to March 31, 2012, the Company granted 2,335,000 stock options at an exercise price of $0.08 per share, exercisable until April 24, 2017.

Item 2. Management s Discussion and Analysis or Plan of Operations

The following discussion of the operating results, corporate activities and financial condition of EMC Metals Corp. (hereinafter referred to as EMC , or the Company) and its subsidiaries provides an analysis of the operating and financial results between December 31, 2011 and March 31, 2012 and a comparison of the material changes in our results of operations and financial condition between the three-month period ended March 31, 2011 and the three-month period ended March 31, 2012. This discussion should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011.

The interim statements have been prepared in accordance with US Generally Accepted Accounting Principles (US GAAP) as the Company is a reporting issuer in accordance with U.S. Securities and Exchange Commission (SEC) regulations. The 2010 Annual Statements have been restated in accordance with US GAAP and have been filed on SEDAR. The reporting currency is the Canadian Dollar. The Company became a reporting issuer in July 2011.

The information contained within this report is current as of May 8, 2012 unless otherwise noted. Additional information relevant to the Company s activities can be found on SEDAR at www.sedar.com.

Overview

EMC is a specialty metals and alloys company focusing on scandium, tungsten, molybdenum, vanadium, and other specialty metals. The Company intends to utilize its patented technologies and know-how to maximize opportunities in these 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. The Company currently trades on the Toronto Stock Exchange under the symbol EMC .

The Company s most advanced asset is the Springer Tungsten Mine, a fully constructed mine and mill asset in Nevada, USA. The Springer mine is currently not operating, and the Company is now working to re-start mine operations.

The Company continues to hold a 50% interest earn-in right in the Nyngan scandium project in New South Wales, Australia although this interest is under dispute with our partner, Jervois Mining Limited. We also own the Carlin vanadium property in Nevada, USA and four other specialty metals properties: the Fairfield scandium property (Utah, USA), and Hogtuva beryllium property (central Norway) and two scandium plus specialty metals properties in southern Norway (Tordal and Evje-Iveland).

The Company acquired rights to metallurgical processing know-how as part of the acquisition of The Technology Store (TTS) during the prior year, which it is utilizing to gain access to a number of specialty metals opportunities.

The Company s focus during the quarter regarding Springer Mine included maintaining that asset on standby mode, and organizing, planning and pursuing mine and mill re-start. A sale process on the Springer asset, underway since September 2010, was terminated in March 2012, after rising tungsten prices made a near-term restart much more attractive than at the time the asset was first offered for sale.

The Company also advanced the Nyngan scandium project through metallurgical work, process definition and optimization work. During February, 2012, the Company completed and presented to our joint venture partner a NI 43-101 report entitled Technical Report on the Feasibility of the Nyngan Scandium Project . On February 27, 2012, we received written notice from our joint venture partner that we had failed to meet certain Agreement earn-in milestones. The Company believes that it has fully met the conditions under the Agreement to earn its 50% joint venture interest in the Project and will take all lawful steps to secure its proprietary rights to the 50% joint venture interest. Please see additional discussion in the following Principal Properties section.

Principal Properties Review

Springer Tungsten: The Springer Tungsten Mine (Springer), located in Pershing County in northwestern Nevada, was constructed by Utah International Inc. for the General Electric Company (GE), and was completed and commissioned in late 1981. The facility consists of a 1,000 ton per day (tpd) electro-pneumatic underground rail mine and a mill facility with crushing, grinding, flotation circuits and an APT (ammonium paratungstate) plant. Springer operated for less than a full year in 1982 before being put on care and maintenance by GE, due to low tungsten prices. Since acquiring Springer in 2006, EMC has spent approximately $38 million on the facility, specifically on rehabilitation, process improvements, resource exploration, process automation and a mill throughput expansion. The necessary federal, state and local permits are predominantly in place, along with an adequate industrial water resource, to re-start the facility.

The latest NI 43-101 resource technical report on the Springer property, independently prepared by Dr. Bart Stryhas of SRK Consulting Engineers and Scientists of Lakewood, Colorado, titled, NI 43-101 Technical Report on Resources Springer Facility- Sutton Beds, Nevada, USA, is dated May 15, 2009 and was filed on SEDAR on May 26, 2009 That resource estimate can be summarized as follows:

Springer Tungsten Project NI 43-101 Resource Estimation Stryhas (2010) of SRK Consulting				
Resource Category	**Cut-off % WO_3**	**Total (tonnes)**	**Average Grade % WO_3**	**Contained STU s WO_3**
Indicated	0.30	274,000	0.619	169,606
Inferred	0.30	1,097,000	0.562	616,514

Dr. Stryhas is a Principal Resource Geologist with SRK Consulting's Denver Mining Group and a Qualified Person as defined by NI 43-101. He is independent of EMC by all tests of NI 43-101.

Nyngan Scandium*:* In February of 2010, the Company entered into a joint venture agreement (the JV) with Jervois Mining Limited (Jervois) of Melbourne, Australia (ASX: JRV) to develop the Nyngan scandium property in New South Wales, Australia. The terms of the JV require EMC to earn in to a 50% position through a two stage work program.

- the first stage required EMC to spend a minimum of A$500,000 on project exploration and metallurgical test work by mid December 2010, and
- the second stage requires the delivery of a feasibility study in the first quarter of 2012.

The JV partners agreed to extend the stage I work timeframe into 2011 and those first stage requirements were met during the second quarter of 2011. Under the terms of the JV agreement, upon delivery of a feasibility study to Jervois, along with payment of an additional A$1,300,000 plus the applicable Goods and Services tax, EMC would earn in a 50% interest in the joint venture.

On February 24, 2012, the Company delivered to Jervois a A$1.43 million cash payment and an independent NI 43-101 report entitled "***Technical Report on the Feasibility of the Nyngan Scandium Project***" dated February 23, 2012 (the "Report"), which was compiled by SNC-Lavalin of Brisbane, Australia. The Report was delivered to Jervois following an extensive discussion and presentation to the Jervois Board and management.

On February 27, 2012 EMC received written notice from Jervois rejecting the Report for the stated reason that the Report does not fall within the definition of "Feasibility Study" provided in the Agreement.

The Company believes that it has fully met the conditions under the Agreement to earn its 50% joint venture interest in the Project and will take all lawful steps to secure its proprietary rights to the 50% joint venture interest.

On March 23, 2012, the Company announced that, following discussions with Jervois, the parties have agreed to engage in further without prejudice communications in an attempt to resolve the dispute. Those discussions are currently ongoing. If at any time it becomes apparent that a resolution satisfactory to both parties will not be reached, we will immediately continue formal steps under the dispute resolution provisions of the JV agreement. The NI 43-101 Technical Report has not been filed on SEDAR, and will not become a public document unless and until EMC achieves it s project earn-in and the dispute between the parties is resolved.

In the meantime, EMC continues to maintain that it has met the conditions under the Agreement to earn EMC's 50% joint venture interest in the Project and, subject to satisfactory agreement, EMC will take all lawful steps to secure its proprietary rights to the 50% joint venture interest.

The Nyngan scandium resource is located approximately 500 kilometers northwest of Sydney, Australia. The property consists of two exploration licenses, controlled by Jervois, which encompass over 9,000 hectares. The scandium resource is hosted within a lateritic zone, locally up to 40 meters thick, and is layered with hematitic clay at the surface followed by limonitic clay, saprolitic clay, weathered bedrock and finally fresh bedrock. The scandium mineralization is concentrated within the hematitic, limonitic, and saprolitic zones with values up to 495 ppm scandium.

In March of 2010, EMC announced receipt of a NI 43-101 resource estimate on the Nyngan scandium property, the results of which were filed on SEDAR in April 2010. That resource estimate can be summarized as follows:

Nyngan Scandium Project NI 43-101 Resource Estimation Rangott, Pursell and Jannink (2010) of Jervois Mining			
Resource Category	**Tonnes**	**Grade (ppm Sc)**	**Overburden Ratio**
Measured	2,718,000	274	0.81:1
Indicated	9,294,000	258	1.40:1
Total	**12,012,000**	**261**	**1.10:1**

Assumes 100 ppm scandium cutoff.

The first work phase of the JV development program consisted of detailed metallurgical bench scale testing, and was intended to refine and enhance the Company s existing material process flow sheet to extract scandium from the resource material. This existing flow sheet, developed by Jervois and external consultants, formed the basis of a preliminary, conceptual engineering study for the processing elements of the project, (press release dated July, 2010), completed by Roberts & Schaefer of Salt Lake City, Utah.

The Roberts & Schaefer report included preliminary capital and operating cost estimates, based on process flow sheets and technical reports done for Jervois or EMC on various metallurgical aspects of the resource. These technical/process reports were done by METCON Laboratories of Sydney, Australia, the Commonwealth Scientific and Industrial Organization (CSIRO), Australia s national science agency, or by other research work, proprietary to or sourced by Jervois or EMC. The bulk of the process applied by Roberts & Schaefer in the Report was defined by bench-scale as well as small scale pilot plant work results compiled by others, and a preliminary flow sheet complied by the CSIRO.

In January 2011, EMC announced results of initial bench-scale test work, independently prepared by Hazen Research, Inc., of Golden, Colorado, USA. These bench-scale results were based on conventional contained acid leach systems, and suggested recoveries from resource of up to 75%. No secondary recoveries were considered in these initial bench-scale tests.

The second phase of the Hazen test work program continued through November 2011, and was based on batch pilot plant scale testing of acid leach systems, solvent extraction systems and product finish systems, consistent with the earlier bench-scale (baseline) work done by Hazen.. The overall objectives of the larger scale test work program were to define and optimize a process or series of processes that achieved an 80% scandium recovery, lowest possible capital and operating costs, and most benign environmental impact, using standard and accepted processes. In February, 2011 EMC announced results of a series of laboratory-scale tests investigating the production of scandium-aluminum (Sc-Al) alloys directly from aluminum oxide and scandium oxide feed materials, prepared by the CSIRO. The overall objective of this research is to demonstrate and commercialize the production of Sc-Al master alloy using impure scandium oxide as the scandium source, potentially significantly improving the economics of scandium aluminum master alloy production.

In April, 2011 EMC announced the initiation of key environmental work on the Nyngan project, outlining a series of environmental work steps designed to advance the Environmental Impact Study (EIS). .

In June, 2011 EMC announced that SNC-Lavalin Pty Ltd (SNC) had been selected as the independent engineering firm to develop the NI 43-101 Technical Report (feasibility study) on the Nyngan Scandium Project in New South Wales, Australia.

In January, 2012 EMC announced that that key elements of environmental site work on the Nyngan Scandium Project had been completed and a Conceptual Project Development Plan (CPDP) submitted to the NSW, Australia state regulators. The CPDP submission forms the basis for an Environmental Impact Study ("EIS"), the foundation environmental document required for a mining permit in the state. This environmental work, coordinated by R. W. Corkery & Co. (Orange, NSW, Australia), and specifically contained the results of assessment work done by independent experts on ground water and surface water issues, soils studies, Aboriginal heritage studies, flora and fauna studies, and traffic, noise and air quality monitoring.

Also in January, 2012 EMC announced that it had received the final independent metallurgical test-work results from Hazen Research estimating overall recoveries and grades of scandium oxide product.

Highlights of the 2011 Hazen semi-continuous pilot plant test-work are as follows:

- Results of conventional contained sulfuric acid bake and water leach systems, at atmospheric pressure, demonstrated scandium recoveries averaging 75%,
- Results of conventional solvent extraction ("SX") on the pregnant leach solution, demonstrated scandium recoveries exceeding 99%,
- Results on final stage precipitation of scandium oxide, focused on highest combined purity and recovery, demonstrated scandium recoveries of 97.5%, at purity levels of 97.5% Sc2O3,
- Overall recovery results were 70% to 80%, based on ore type (limonite or saprolite), and
- All process assumptions were based on standard and accepted techniques for ore preparation, leaching, solvent extraction and final product preparation.

The overall results of the metallurgical test work from Hazen Research, the environmental work coordinated from R. W. Corkery & Co., along with other work from other independent engineering groups was consolidated into an independent NI 43-101 report entitled, Technical Report on the Feasibility of the Nyngan Scandium Project , by SNC-Lavalin of Brisbane, Australia. This Technical Report remains under discussion between the joint venture partners, has not been filed on SEDAR, and will not be made public unless and until the joint venture partners resolve the earn-in dispute.

Currently there are no primary producers of scandium oxide products. The world supply of scandium is produced solely from tailings piles formed by prior mining operations, or as byproducts from other process streams, mainly from uranium, tungsten, tin and titanium production. The United States Geological Survey in its latest report (January, 2010) quotes a price of US$1,400 per kilogram of Sc_2O_3 (scandium oxide) for the four previous years, although current indications suggest higher prices are prevalent in the market, and the material is available only in small quantities.

Carlin Vanadium: The Carlin vanadium project consists of 72 unpatented mineral claims covering approximately 578 hectares, located along the western flank of the Piñon Range near the town of Carlin, Nevada.

The Carlin resource was discovered in the 1960s by Union Carbide Corp. (UCC) when significantly anomalous vanadium was found in samples collected by UCC Geologists (Galli, 1968, Morgan, 1968). During 1967 and 1968 UCC conducted exploration work including geological mapping, ~15,000 feet of trenching, and ~36,500 feet of drilling in 112 holes, outlining a zone of vanadium mineralization within the current claim boundary.

The vanadium mineralization is hosted within a 15-metre (50-foot) thick horizon of black shales within the Devonian Woodruff Formation, which consists of dark grey to black siliceous mudstones, and chert with lesser amounts of shale, siltstone, dolomitic siltstone, and calcareous sandstone. The Woodruff formation is unconformably overlain by shallow dipping Permian-Pennsylvanian siltstones, shales, conglomerates, and carbonates of the Chainman and Diamond Peak Formations.

Historical metallurgical test work from the Carlin vanadium project, completed by the U.S. Department of Mines (Brooks and Potter, 1974), showed that up to 69% of the vanadium could be recovered from weathered dolomitic shales containing 1% V_2O_5 (vanadium oxide). Preliminary test work on fresh black shales shows similar recoveries using a salt roast and acid leaching.

In April, 2010, EMC announced receipt of an NI 43-101 compliant technical report and resource estimation for the Carlin vanadium project, located approximately 40 kilometers south of Elko, Nevada, USA. The Technical Report, titled, NI 43-101 Technical Report on Resources, EMC Metals Corp., Carlin Vanadium Project. Carlin, Nevada , prepared by SRK Consulting US, was subsequently filed on SEDAR in May, 2010. The technical report outlines a NI 43-101 compliant inferred resource of 25.4 million tonnes grading 0.5% V_2O_5 for a total of 289 million pounds of total contained V_2O_5, as outlined below.

Carlin Vanadium Project NI 43-101 Resource Estimation Stryhas (2010) of SRK Consulting				
Resource Category	Cut-off V_2O_5 (%)	Total (tonnes)	Grade V_2O_5 (%)	Contained V_2O_5 (pounds)
Inferred	0.30	25,400,000	0.51	289,000,000

Exploration Properties Review

Norwegian Properties: In April of 2011, the Company acquired 100% option rights to the Tørdal property in Telemark county, Southern Norway. The property, originally encompassing a 40 sq. km area, has since been increased to 140 sq. km. As part of the same agreement, we also acquired 100% option rights to the Evje-Iveland, property, located west of the Tørdal property in Aust-Agder county, also in Southern Norway. The Evje-Iveland property originally encompassed an 80 sq km area, but has been subsequently been increased in size to 150 sq. km. Both Tørdal and Evje-Iveland contain pegmatite formations, prospective for scandium and REE's, while Evje-Iveland is also prospective for certain base metals, notably nickel.

In September, 2011 EMC entered into an option agreement to earn a 100% interest in the exploration rights to a beryllium exploration site in Central Norway, known as the Hogtuva property. To earn 100% of the exploration rights, we must pay a total of $150,000 over 18 months (including $50,000 paid on the agreement date) and up to 200,000 shares of EMC common stock. The three exploration sites cover a total of approximately 80 square kilometers prospective for scandium, beryllium and other specialty metals.

Exploration work done to date has focused on the Tørdal pegmatites. In July, we announced encouraging assay results from a surface soil sampling program conducted in June on a 3.75 sq. km portion at Tørdal.

Highlights of Initial Surface Soil Sample Program:

- The best sample assay returned a 217 ppm scandium value,
- Eleven soil samples contained +50 ppm scandium, of which five samples exceeded 85 ppm and three exceeded 150 ppm,
- The eleven soil samples were clustered within an area measuring 700 x 100 meters, or approximately 35% of the total sample area,
- A total of 131 soil samples were collected at 100-metre spacing intervals, in more accessible areas that avoided steep terrain,
- The total sample area represented a zone of about 1,500 x 2,500 meters within the Heftetjern pegmatite field, and
- Many previously unmapped pegmatite dykes were noted in the areas traversed, some traceable on surface for several hundred meters.

The results of this initial soil sampling program are, by their nature, preliminary, and not conclusive evidence of the likelihood of a mineral resource.

The soil sampling program focused on a 3.75 sq km area, northwest of the town of Bø, in an area between the communities of Høydalen and Skardsfjell. Known as the Heftetjern region, this location exhibits numerous known pegmatite occurrences, including a locally famous pegmatite quarry associated with several unique scandium, tin, and beryllium mineral types. Steep slopes were generally avoided and sampling was carried out in the most accessible locations. The sampling program of 131 samples was based on soil sampling of 100 x 100 metre grids and covered somewhat less than half of the target area due to terrain impediments. The most promising scandium-bearing zone was observed at the north end of the tested area, and remains open to the north.

Fairfield Scandium Exploration Property: In September 2011 EMC Metals Corp. announced that it entered into an option agreement with Mineral Exploration Services LLC of Reno, Nevada, pursuant to which EMC has an option to earn a 100% interest in a patented mining claim and former scandium property, known as The Little Green Monster, near the town of Fairfield, Utah. The property represents a high-grade scandium phosphate exploration target, is the site of a historical small underground scandium mining operation, and has been a popular collecting site with hobbyists seeking rare and semi-precious phosphate minerals, including the scandium phosphate mineral kolbeckite [$ScPO_4 \cdot 2H_2O$], for over a century.

Other Developments

On February 15, 2012 the Company entered into USD$3,000,000 loan financing. The loan has a maturity date of 18 months from February 15, 2012 and interest is payable monthly in arrears at a rate of 7% per annum. The lender may convert a maximum of USD$2,000,000 of the principal amount of the loan into 10,000,000 common shares of the Company. In connection with the loan, the Company issued 3,000,000 warrants to the lender, each warrant exercisable into one common share of the Company at an exercise price of CAD$0.20 per share for a period of 24 months from the closing date. The Company will use commercially reasonable efforts to file a registration statement in the United States, qualifying any common shares issuable for resale.

The Company paid a cash commission of USD$150,000 and issued 750,000 agent's warrants to the agent. Each agent's warrant is exercisable into one common share of the Company at an exercise price of CAD$0.20 per share for a period of 24 months from the closing date.

The loan is secured by an interest in the assets of the Company's subsidiary, Springer Mining Company. The Company intends to use the loan to fund the advancement of the Company's metal and mineral properties and for general working capital purposes.

On April 24, 2012 the Company issued 2,335,000 stock options with an exercise price of $0.08 per share, exercisable until April 24, 2017 to directors, officers, employees and other service providers of the Company.

EMC Metals Corp. is now a US Filer on EDGAR

On January 1, 2011, the Company was deemed to be a US Domestic Issuer as a result of having lost its Foreign Private Issuer (FPI) status during 2010. The Company lost FPI status inter-alia as a result of having over 50% of common shareholders identified as US citizens. The Company applied for registration as a US reporting issuer in May 2011, and became effective July 23, 2011.

Qualified Person

Technical information in this MD&A has been reviewed by Willem Duyvesteyn, a Qualified Person as defined by National Instrument 43-101. Mr. Duyvesteyn is employed by EMC Metals.

Operating results-Revenues and Expenses

The Company continued its tight cost management at the Springer facility. The Company has continued to fulfill its commitments in respect of the Nyngan Joint Venture with Jervois Mining Limited, with most of the development expenditure in the quarter on this project.

Summary of quarterly results

	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net Sales	-	-	-	-	-	-	-	-
Net Income (Loss)	(805,905)	(5,312,937)	(1,158,143)	(590,022)	(347,450)	(1,341,524)	(1,514,237)	(1,148,938)

Basic and diluted Net Income (Loss) per share	(0.01)	(0.03)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)

Results of Operations for the three months ended March 31, 2012

The net loss for the quarter increased by $458,455 to $805,905 from $347,450 in the prior year, mainly as a result of increased exploration, general and administrative, professional fees and salary charges. Individual items contributing to this increase are as follows:

Q1 2012 vs. Q1 2011 - Variance Analysis

Item	Variance Favourable / (Unfavourable)	Explanation
Exploration	($274,303)	Increased exploration and test work expenditure at the Nyngan Project in Q1 of the current year accounted for the unfavorable variance when compared to the corresponding quarter of the prior year.
Change in fair value of derivative liability	($228,741)	A one-time (non-cash) valuation recognition event was taken in Q1 of 2011 and will not recur,. resulting in the negative variance to Q1 2011
Professional fees	($61,885)	Higher audit, legal and professional costs associated with the Nyngan project
General and administrative	($44,882)	The Company incurred significant fees for commissions on the issuance of the convertible debenture, along with higher TSX fees ($23,594) and overall increased activity levels.
Salaries and benefits	($11,807)	During the first quarter of 2011 EMC contracted for a significant portion of its administrative services During the second half of 2011, the Company replaced contract expenses with direct office and staff expenses.
Interest expense	($12,719)	Monthly interest due on the new convertible debt resulted in a higher cost for these charges than was incurred in the corresponding quarter of last year.
Amortization	$18,469	Certain assets were fully amortized in the year ending December 31, 2011.
Travel and entertainment	$28,542	Lower travel costs incurred in Q1 2012.
Stock-based compensation	$29,072	The favorable variance results mainly from lower expensing required for options issued in the first half of last year. Option expensing is heaviest in the first 6 months of an option s life. No options were issued in the current quarter.
Foreign exchange	$33,635	The Canadian dollar gained strength against its US counterpart resulting in lower amounts due for US dollar liabilities

Consulting	$66,594	In-house staff in Q1 2012 replaced administrative consulting costs in Q1 2011.

Cash flow discussion for the three months ended March 31, 2012 compared to March 31, 2011

The cash outflow for operating activities increased by $261,855 to $903,247 (March 31, 2011 $641,392) due to increased activity levels, principally related to the Nyngan project.

Cash outflows for investing activities increased by $1,588,220 to $1,608,768 (March 31, 2011 ($20,548)) due mainly to the payment of the AUD$1,430,000 due at the end of February as part of the earn-in on the Nyngan project.

Cash inflows from financing activities increased by $2,252,624 to $2,773,498 (March 31, 2011 - $520,874), reflecting issuance of the convertible debenture.

Financial Position

Cash

The Company s cash position improved during the quarter by $261,483, to $1,066,375 (December 31, 2011 -$804,892) primarily due to the issuance of a convertible debenture for US$3,000,000.00 which was offset by the payment required as part of the Nyngan project earn-in requirement of AUD$1,430,000.00.

Marketable securities

Marketable securities is unchanged at $2,250 (December 31, 2011 - $2,250).

Property, plant and equipment

Property plant and equipment consists of land and water rights in Nevada, the Springer plant and equipment, and various other items of property plant and equipment. The decrease of $70,169 to $30,606,257 (December 2011 -$30,676,426) is due to amortization net fixed assets.

Mineral interests

Mineral interests increased by $1,608,768 to $2,288,479 (December 31, 2011 - $679,711) because of the Nyngan project earn-in requirement and a progress payment on the Hogtuva property in Norway.

Accounts Payable

Accounts Payable has decreased by $106,758 to $443,323 (December 2011 $550,081) due to a general decrease in activity from the year-end.

Convertible Debenture

During the current quarter a debenture of US$3,000,000 was issued. The amount shown here is the convertible portion less legal and commission fees paid to acquire the debenture.

Promissory note payable current portion

The current promissory note payable decreased by $18,280 to $511,472 (December 31, 2011 - $529,752) which is attributable to a change in foreign exchange on conversion of the USD designated promissory notes to CAD for reporting purposes.

Promissory note payable long-term portion

The long-term promissory note payable increased by $832,371 to $4,646,121 (December 31, 2011 - $3,813,750) due to the inclusion of the non-convertible portion of the loan financing taken out in Q1 of this year, less associated legal and commission costs paid, offset by a change in foreign exchange on conversion of the USD designated promissory notes to CAD for reporting purposes.

Capital Stock

Capital stock did not change and remained at $88,578,045 (December 31, 2011 - $88,578,045).

Additional paid-in capital increased by $287,488, to $1,763,773 (December 31, 2011 - $1,476,285) as a result of the warrants issued in association with the convertible debt financing and the expensing of stock options.

Liquidity and Capital Resources

At March 31, 2012, the Company had a working capital of $315,496 including cash of $1,066,375 as compared to a working capital of ($80,533) including cash of $804,892 at December 31, 2011. Also included in working capital, at March 31, 2012, were marketable securities with a market value of $2,250 (December 31, 2011 - $2,250).

During the three month period ended March 31, 2012, the Company received cash of $Nil (2011 - $520,874) for stock issuances. At March 31, 2012, the Company had 3,750,000 share purchase warrants exercisable at $0.20 per share which have the potential upon exercise to convert to approximately $750,000 in cash over the next two years. Further, a total of 11,848,750 stock options exercisable between $0.10 and $2.15 have the potential upon exercise to generate a total of $2,254,262.50 in cash over the next four and a half years. There is no assurance that these securities will be exercised.

Our major capital requirements in the next 12 months relate mainly regarding our projects in Norway.

We are also obligated to repay a US$500,000 promissory note in Q3, 2012 issued to the vendors of TTS in connection with the acquisition of TTS. Also we have a long-term commitment for approximately $3,740,625 and it is expected that this commitment will be funded from available cash when the note is due in 2013. Also in the current quarter loan financing of USD$3,000,000 was arranged of which $2,000,000 is convertible, at the lender s discretion, to shares of the Company and USD$1,000,000 is to be paid in August of 2013. It is expected that this commitment will be paid from available cash when due in 2013.

The Company will need additional funding to meet the commitments shown above and will seek to raise additional equity financing in the short term.

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 150,678,713 issued and outstanding common shares, 14,183,750 outstanding stock options currently outstanding at a weighted average exercise price of $0.17, and 3,750,000 outstanding warrants at a weighted average exercise price of $0.20.

Off-balance sheet arrangements

At March 31, 2012, 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

There were no related party transactions in the quarter ended March 31, 2012.

Proposed Transactions

There are no proposed transactions outstanding other than what has been 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

We capitalize the costs of acquiring mineral rights at the date of acquisition. After acquisition, various factors can affect the recoverability of the capitalized costs. Our 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. We are 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, we have assumed recent world commodity prices will be achievable. We have considered the mineral resource reports by independent engineers on the Springer and Nyngan projects 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

In April 2010, the Financial Accounting Standards Board (FASB) issued ASU 2010-13, Compensation Stock Compensation (Topic 718), amending ASC 718. ASU 2010-13 clarifies that a stock-based payment award with an exercise price denominated in the currency of a market in which the entity s equity securities trade should not be classified as a liability if it otherwise qualifies as equity. ASU 2010-13 also improves US GAAP by improving consistency in financial reporting by eliminating diversity in practice. ASU 2010-13 is effective for interim and annual reporting periods beginning after December 15, 2010 (January 1, 2011 for the Company). The Company is currently evaluating the impact of ASU 2010-09, but does not expect its adoption to have a material impact on the Company s financial reporting disclosures.

In December 2010, the FASB issued ASU 2010-29, which contains updated accounting guidance to clarify the acquisition date that should be used for reporting pro forma financial information when comparative financial statements are issued. This update requires that a company should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This update also requires disclosure of the nature and amount of material, nonrecurring pro forma adjustments. The provisions of this update, which are to be applied prospectively, are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The impact of this update on the Company s consolidated financial statements will depend on the size and nature of future business combinations.

Financial instruments and other risks

The Company s financial instruments consist of cash, investments in trading securities, subscriptions receivable, receivables, accounts payable and accrued liabilities, due to related parties, 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 one commercial bank in Vancouver, British Columbia, Canada.

Risk Factors

Prior to making an investment decision investors should consider the investment risks set out below and those described elsewhere in this document, which are in addition to the usual risks associated with an investment in a business at an early stage of development. The directors of the Company consider the risks set out below to be the most significant to potential investors in the Company, but are not all of the risks associated with an investment in securities of the Company. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the Directors are currently unaware, or which they consider not to be material in relation to the Group's business, actually occur, the Group's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the price of the Company s securities could decline and investors may lose all or part of their investment.

EMC Will Require Significant Amounts of Additional Capital in the Future

The Company has limited financial resources. The Company will continue to make substantial capital expenditures related to exploration, development and production. In particular the Company will have further capital requirements as it proceeds to expand its present exploration activities at its mineral projects, or to take advantage of opportunities for acquisitions, joint ventures or other business opportunities that may be presented to it.

In addition, the Company may incur major unanticipated liabilities or expenses. There can be no assurance that the Company will be able to obtain necessary financing in a timely manner on commercially acceptable terms, if at all.

Volatile demand for tungsten and other metals and the volatile prices for tungsten and other metalsmay make it difficult or impossible for the Company to obtain debt financing or equity financing on commercially acceptable terms or at all. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its tungsten and other mineral projects with the possible loss of the rights to such properties. If exploration or the development of any mine is delayed, such delay would have a material and adverse effect on the Company s business, financial condition and results of operation.

Stage of Development

The Company s properties are in the exploration stage and the Company does not have an operating history. Exploration and development of mineral resources involves a high degree of risk and few properties which are explored are ultimately developed into producing properties. The amounts attributed to the Company s interest in its properties as reflected in its financial statements represent acquisition and exploration expenses and should not be taken to represent realizable value. There is no assurance that the Company s exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term profitability of the Company s operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors such as unusual or unexpected geological formations, and other conditions. As a result of the Company s lack of operating history, it also faces many of the risks inherent in starting a new business.

Profitability of Operations

The Company is not currently operating profitably and it should be anticipated that it will operate at a loss at least until such time as production is achieved from one of the Company s properties, if production is, in fact, ever achieved. The Company has never earned a profit. Investors also cannot expect to receive any dividends on their investment in the foreseeable future.

Tungsten and other mineral Industries Competition is Significant

The international tungsten and other mineral industries are highly competitive. The Company will be competing against competitors that may be larger and better capitalized, have state support, have access to more efficient technology, and have access to reserves of tungsten and other mineral that are cheaper to extract and process. As such, no assurance can be given that the Company will be able to compete successfully with its industry competitors.

Fluctuations in Metal Prices

Although the Company does not hold any known mineral reserves of any kind, its future revenues, if any, are expected to be in large part derived from the future mining and sale of tungsten and other metals or interests related thereto. The prices of these commodities have fluctuated widely, particularly in recent years, and are affected by numerous factors beyond the Company s control including international economic and political conditions, expectations of inflation, international currency exchange rates, interest rates, global or regional consumption patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and improved mining and production methods, availability and costs of metal substitutes, metal stock levels maintained by producers and others and inventory carrying costs. The effect of these factors on the prices of tungsten and other metals, and therefore the economic viability of the Company s operations, cannot be accurately predicted.

Depending on the price obtained for any minerals produced, the Company may determine that it is impractical to commence or continue commercial production.

EMC Metals Corp. s Operations are Subject to Operational Risks and Hazards Inherent in the Mining Industry

The Company s business is subject to a number of inherent risks and hazards, including environmental pollution; accidents; industrial and transportation accidents, which may involve hazardous materials; labor disputes; power disruptions; catastrophic accidents; failure of plant and equipment to function correctly; the inability to obtain suitable or adequate equipment; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; natural phenomena, such as inclement weather conditions, underground floods, earthquakes, pit wall failures, ground movements, tailings, pipeline and dam failures and cave-ins; and encountering unusual or unexpected geological conditions and technical failure of mining methods.

There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company s tungsten and other mineral properties, personal injury or death, environmental damage, delays in the Company s exploration or development activities, costs, monetary losses and potential legal liability and adverse governmental action, all of which could have a material and adverse effect on the Company s future cash flows, earnings, results of operations and financial condition.

Mineral Reserve and Resource Estimates are Only Estimates and May Not Reflect the Actual Deposits or the Economic Viability of Tungsten, Scandium and/or Gold Extraction

Reserve and resource figures included for tungsten and other minerals are estimates only and no assurances can be given that the estimated levels of tungsten and other minerals will actually be produced or that the Company will receive the tungsten and other metal prices assumed in determining its reserves. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling and exploration results and industry practices. Estimates made at any given time may significantly change when new information becomes available or when parameters that were used for such estimates change. While the Company believes that the reserve and resource estimates included are well established and reflect management's best estimates, by their nature reserve and resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. Furthermore, market price fluctuations in tungsten and other metals, as well as increased capital or production costs or reduced recovery rates, may render ore reserves containing lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. The extent to which resources may ultimately be reclassified as proven or probable reserves is dependent upon the demonstration of their profitable recovery. The evaluation of reserves or resources is always influenced by economic and technological factors, which may change over time.

Exploration, Development and Operating Risk

The exploration for and development of tungsten and other mineral properties involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which are highly cyclical, drilling and other related costs which appeadent:-10.0pt;">Equipment

$

	6,313	
$		6,257
Leasehold improvements	7,346	7,335
Furniture and fixtures	88	87
	13,747	13,679
Less accumulated depreciation & amortization	(9,379)	(9,110

)

Construction in-progress	112	132
Equipment and leasehold improvements, net	$ 4,480	$ 4,701

At March 31, 2007, the above equipment, leasehold improvements, accumulated depreciation and construction in-progress amounts were reduced by a net $4.5 million impairment charge resulting from management s analysis under SFAS No. 144, as discussed in Note 3 to the Consolidated Financial Statements of Form 10-K for the year ended March 31, 2007.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Upon such an occurrence, recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows to which the assets relate, to the carrying amount. If the asset is determined to be unable to recover its carrying value, then the carrying value of the long-lived assets are compared to the asset s fair value. The Company has determined fair value based upon present values of expected future cash flows. The

Company s SFAS No. 144 analysis for the three and six months ended September 30, 2007, resulted in no asset impairment charge.

6. EARNINGS PER SHARE

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the potentially dilutive effect of outstanding stock options and warrants using the treasury stock method and convertible securities using the if-converted method.

Reconciliations between the numerator and the denominator of the basic and diluted earnings per share computations for the three months ended September 30, 2007 and 2006 are as follows (in thousands, except per share amounts):

	Three Months Ended September 30, 2007			Three Months Ended September 30, 2006		
	Net Loss (Numerator)	**Shares (Denominator)**	**Per Share Amount**	**Net Loss (Numerator)**	**Shares (Denominator)**	**Per Share Amount**
Basic net loss per share	$ (344)	5,234	$ (0.07)	$ (572)	5,234	$ (0.11)
Effect of dilutive securities Common stock options and warrants						
Diluted net loss per share	$ (344)	5,234	$ (0.07)	$ (572)	5,234	$ (0.11)

Reconciliations between the numerator and the denominator of the basic and diluted earnings per share computations for the six months ended September 30, 2007 and 2006 are as follows (in thousands, except per share amounts):

	Six Months Ended September 30, 2007			Six Months Ended September 30, 2006		
	Net Loss (Numerator)	**Shares (Denominator)**	**Per Share Amount**	**Net Loss (Numerator)**	**Shares (Denominator)**	**Per Share Amount**
Basic net loss per share	$ (726)	5,234	$ (0.14)	$ (919)	5,233	$ (0.18)
Effect of dilutive securities Common stock options and warrants						
Diluted net loss per share	$ (726)	5,234	$ (0.14)	$ (919)	5,233	$ (0.18)

Basic and diluted earnings per share are the same in periods of a net loss, thus there is no effect of dilutive securities when a net loss is recorded. There were approximately 67,000 and 94,000 securities excluded from the calculation of diluted loss per share because their effect was anti-dilutive for the three months ended September 30, 2007 and 2006, respectively. They were anti-dilutive due to the exercise price being greater than the Company s weighted-average stock price for the period.

The following securities were excluded from the calculation of diluted earnings per share because their effect was antidilutive (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Stock options and warrants	67	94	67	99

7. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). This new standard provides guidance for using fair value to measure assets and liabilities and information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair market value. SFAS No. 157 also expands financial statement disclosure requirements about a company s use of fair value measurements, including the effect of such measures on earnings. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007. While the Company is currently evaluating the provisions of SFAS No. 157, the adoption is not expected to have a material impact on our consolidated financial position or results of operations.

In May 2007, the FASB issued FASB Staff Position (FSP) FIN 48-1 Definition of Settlement in FASB Interpretation No. 48 (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. The implementation of this standard did not have a material impact on our consolidated financial position or results of operations.

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

This report on Form 10-Q contains forward-looking statements regarding the future performance of Cyanotech and future events that involve risks and uncertainties that could cause actual results to differ materially from the statements contained herein. This document, and the other documents that the Company files from time to time with the Securities and Exchange Commission, such as its reports on Form 10-K, Form 10-K/A, Form 10-Q, Form 8-K, and its proxy materials, contain additional important factors that could cause actual results to differ from the Company s current expectations and the forward-looking statements contained herein.

Overview

A comparison of selected consolidated statements of operations data as reported herein follows for the periods indicated (dollars in thousands):

	Three Months Ended September 30, 2007		Three Months Ended September 30, 2006		Change
Net sales:					
Spirulina products	$	1,407	$	1,436	(2)%
Natural astaxanthin products		1,176		1,000	18%
Other products		21		39	(46)%
Total sales, all products	$	2,604	$	2,475	5%
Gross profit	$	768	$	404	90%
Loss from operations	$	(314)	$	(542)	42%
Net loss	$	(344)	$	(572)	40%

	Six Months Ended September 30, 2007		Six Months Ended September 30, 2006		Change
Net sales:					
Spirulina products	$	2,938	$	2,962	(1)%
Natural astaxanthin products		2,173		1,890	15%
Other products		76		67	13%
Total sales, all products	$	5,187	$	4,919	5%
Gross profit	$	1,514	$	875	73%
Loss from operations	$	(655)	$	(853)	23%
Net loss	$	(726)	$	(919)	21%

Sales for the second quarter of fiscal 2008 ended September 30, 2007 increased from the comparable prior year period by $129,000 or 5% due primarily to increases in the number of units sold of *BioAstin* products.

Spirulina sales remained relatively flat, decreasing by 2% from the prior year period. Unit sales decreased 8% and average selling price increased 5% compared to comparable prior year period.

The natural astaxanthin total product line overall experienced an 18% increase to $1,176,000 in the second quarter of fiscal 2008 from $1,000,000 in the second quarter of fiscal 2007. Natural astaxanthin product sales, not including *NatuRose*, increased by 57% compared to the comparable prior period. *NatuRose* product sales decreased by 35% from the comparable prior year period.

Our previous statements predicting that a shortfall in the Japan aquaculture market would persist have proven correct, and we expect *NatuRose* fish feed astaxanthin product sales will not recover. Accordingly, as discussed in Note 1 of Notes to Consolidated Condensed Financial Statements the Company has discontinued all business activity of its wholly owned Japanese subsidiary CJYK . The discontinuance of CJYK is not expected to have a significant current or future financial impact. In addition, the Company is increasing focus on building market share in the human nutrition market with a major focus on differentiating *BioAstin* from lower quality offerings from competitors.

Our gross profit margin as a percentage of sales increased to 29% for the three months ended September, 30, 2007 from 16% for the same period a year ago. Sales for the second quarter of fiscal year 2008 increased 5% from the comparable prior year period, and cost of sales declined 11% for the same respective period. Significant factors for the cost of sales decrease were a 64% reduction in depreciation expense and a production increase of 38% for astaxanthin powder. For the three months ended September 30, 2007, variable production costs decreased 4% primarily in chemical, water, and repair and maintenance costs. Approximately $34,000 and $59,000 of fixed production overhead costs were not inventoriable during the three months ended September 30, 2007 and September 30, 2006 respectively, due to both spirulina and astaxanthin production levels being below normal capacity. Fixed costs were adjusted accordingly per SFAS No. 151. Approximately $126,000 and $127,000 of production costs were not inventoriable because such costs would have exceeded the market value for such inventory during the three months ended September 30, 2007 and 2006, respectively. Gross profit margin percentages in fiscal year 2008 are expected to increase in comparison to the fiscal year 2007 results.

The net loss for the second quarter of fiscal 2008 decreased $228,000 compared to the comparable quarter of fiscal 2007. The decrease in net loss is primarily due to increased sales of $129,000 and decreased cost of goods sold of $235,000, partially offset by increased general and administrative expenses of $138,000.

Second Quarter of Fiscal 2008 Compared to Second Quarter of Fiscal 2007

Net sales for the second quarter of fiscal 2008 increased to $2,604,000 from the $2,475,000 reported for the comparable period a year ago. Company sales of spirulina products for the second quarter of fiscal 2008 were $1,407,000, compared to $1,436,000 in the second quarter of fiscal 2007. As a percentage of sales, spirulina was 54% of total sales in the second quarter of fiscal 2008, compared to 58% for the comparable period a year ago.

Natural astaxanthin product sales for the second quarter of fiscal 2008 were $1,176,000 compared to $1,000,000 in the second quarter of fiscal 2007. As a percentage of sales, natural astaxanthin product sales including *NatuRose*, our animal feed astaxanthin product, were 45% of total sales in the second quarter of fiscal 2008, compared to 40% for the comparable period a year ago.

NatuRose sales decreased as a result of the previously discussed lack of demand in the Japanese aquaculture market and resulting decreased emphasis on sales of this product line. The Company feels that the Japan aquaculture market adapted to using less natural astaxanthin, and less *NatuRose*, in favor of using less costly synthetic substitutes. With sales price constraints in the animal nutrition market coupled with rising production costs for labor, nutrients, utilities and transportation, profit margins are limited to the point that maintaining profitable business in the animal nutrition market has become difficult. Accordingly, as discussed in Note 1 of Notes to Consolidated Condensed Financial Statements the Company has discontinued all business activity of its wholly owned Japanese subsidiary CJYK . All aquaculture feed business in Japan has been absorbed into the Company s domestic operations. The discontinuance of CJYK is not expected to have a significant current or future financial impact.

Other products sales were $21,000 during the second quarter of fiscal 2008 and $39,000 during the second quarter of fiscal 2007, and represented 1% and 2% of sales in the respective periods.

International sales were 44% of total sales for the second quarter of fiscal 2008, compared to 41% a year ago. Historically, our major customers (sales exceeding 10% of total sales) have been two distributors, one based in Europe and one in the United States. For the three months ended September 30, 2007, our European distributor accounted for 12% of total sales as compared to 10% of total sales for the comparable period of fiscal 2007. Sales to the United States distributor were less than 10% of total sales in each of the second quarters of fiscal years 2008 and 2007.

Gross profit, derived from net sales less the cost of product sales, primarily includes the cost of materials, manufacturing overhead costs, direct labor costs and depreciation. Gross profit for the three months ended September 30, 2007 was $768,000 with a gross profit margin percentage of 29%, increased from gross profit of $404,000 and a gross profit margin of 16% reported for the comparable prior year quarter. Sales for the second quarter of fiscal year 2008 increased 5% from the comparable prior year quarter and cost of sales decreased 11% for the same comparable quarter. Water usage decreased due to cooler weather and repair and maintenance costs decreased due to the timing of repair and maintenance expenses. However, we expect gradual direct cost price increases in all areas consistent with the local and national economy. Pursuant to SFAS No. 151, approximately $34,000 and $59,000 of fixed production overhead cost was not inventoriable during the three months ended September 30, 2007 and September 30, 2006, due to production levels below normal capacity. In addition, approximately $126,000 and $127,000 of production costs were not inventoriable because such costs would have exceeded the market value for such inventory during the three months ended September 30, 2007 and 2006, respectively.

Operating expenses for the three months ended September 30, 2007 were 42% of sales or $1,082,000, compared to 38% of sales or $946,000 for the three months ended September 30, 2006. The $136,000 increase in operating expenses during the three months ended September 30, 2007, compared with the three months ended September 30, 2006, and the 4% increase as a percentage of sales, were primarily the result of general and administrative expense increasing by $138,000 or 24%. The increase in general and administrative expenses as a percentage of sales resulted primarily from increased employee related expenses due to recruitment of additional accounting personnel. Also, contractual services and legal expenses increased due to the late filings of Form 10-K for the year ended March 31, 2007 and Form 10-Q for the quarter ended June 30, 2007.

The Company periodically reviews the recoverability of the carrying value of long-lived assets using the methodology prescribed in Statement of Financial Accounting Standards (SFAS) No. 144. At March 31, 2007, this analysis resulted in a non-cash, asset impairment charge of $4.5 million. The determination of this impairment charge was the primary cause of the delayed filing of the fiscal 2007 Form 10-K. A portion of the accounting and auditing fees associated with the impairment charge analysis were included in general and administrative expense in the second quarter of fiscal 2008. Other increases in general and administrative expenses have been described above. The Company expects that total operating expenses will increase in the remaining quarters of this fiscal year. Work has been completed on the Company s delayed Form 10-K filed on August 16, 2007, and the delayed Form 10-Q for the quarter ended June 30, 2007, filed September 21, 2007, the Company is required to comply with the Sarbanes-Oxley Act by March 31, 2008 and expects to incur additional related costs, as discussed in the following paragraphs.

In addition to the foregoing, sales and marketing expenses increased 4% in the second quarter of fiscal 2008 over prior comparable period amounts. Whether sales and marketing expenses continue to increase over fiscal year 2007 levels will be based on customer demand and market opportunities that may arise. Research and development expense decreased by 28% in the second quarter of fiscal 2008 over the prior period comparable amounts due to reduced expenditures on contractual services. Research and development expenses may begin to increase as new opportunities arise, but the Company will continue to seek additional leverage from customer supported research where and as practicable. The Company expects overall operating expense spending will remain consistent with or increase from fiscal 2007 levels after excluding the previously mentioned non-cash impairment write-down and SFAS No. 144 related costs. See our comments in the following paragraph below related to potential Sarbanes-Oxley Act compliance and costs.

By March 31, 2008, the Company is required to be in full compliance with the Sarbanes-Oxley Act and Rules issued thereunder by the Securities and Exchange Commission, including Section 404 Compliance Standards established by the Public Companies Accounting Oversight Board. The cost of

attaining and maintaining such compliance could materially decrease reported net income or increase reported net losses in future periods. Although the Company had previously taken steps toward what is generally referred to as Sarbanes-Oxley Act compliance, the process of preparing and filing the Company s Form 10-K/A for the period ended March 31, 2006 filed February 14, 2007 and subsequent delayed filings of the Company s Form 10-K and Forms 10-Q for fiscal year 2007, coupled with the lack of resources discussed in Item 9A of Form 10-K for the year ended March 31, 2007, resulted in the recognition of a material weakness. These events adversely impacted the Company s efforts toward implementing full Sarbanes-Oxley compliance. Such compliance must be achieved by March 31, 2008. This could require significant expenditures and effort over the remaining time to achieve compliance. The costs of compliance with international standards (ISO), U.S. food and drug manufacturing practice (GMP), the Sarbanes-Oxley Act, and other regulatory compliance areas may also continue to increase.

The end result of the foregoing was a net loss of $344,000, or ($0.07) per diluted share, for the three months ended September 30, 2007, as compared to a net loss of $572,000, or ($0.11) per diluted share, for the comparable prior year quarter.

Six Months Ended September 30, 2007 Compared to Six Months Ended September 30, 2006

Net sales for the six months ended September 30, 2007 were $5,187,000, an increase of 5% from sales of $4,919,000 reported for the comparable period a year ago. The increase in sales over the prior year s six-month period was largely the result of increased sales of *BioAstin* and bulk *BioAstin* gelcaps, offset in part by decreased sales in *NatuRose* products. International sales represented 43% of net sales for the six months ended September 30, 2007 compared to 47% for the same period a year ago. For the six months ended September 30, 2007 and September 30, 2006, our European distributor accounted for 12% and 10% of total sales respectively, with sales to our United States distributor accounting for less than 10% of total sales.

For the six months ended September 30, 2007, cost of sales decreased 9% from the comparable prior year period. For the six months ended September 30, 2007, variable production costs decreased 1%. Non-inventoriable period costs totaled approximately $43,000 for the six months ended September 30, 2007. In addition, pursuant to SFAS No. 151, approximately $57,000 of fixed production overhead costs were not inventoriable during the six months ended September 30, 2007 because production levels were below normal capacity. In addition, production costs associated with the Company s inventory totaling approximately $156,000 and $245,000 incurred during the six months ended September 30, 2007 and 2006, respectively, were not inventoriable because such costs would have exceeded the market value for such inventory. As a result of the increase in sales coupled with the decrease in cost of sales, gross profit margins as a percentage of sales increased to 29% for the six months ended September 30, 2007 as compared to 18% for the comparable prior year period.

Operating expenses for the six months ended September 30, 2007 were $2,169,000, an increase of $441,000 or 26% from the comparable prior year period. The increase in such expense reflects increased general and administrative expenses, increased sales and marketing expenses, and decreased research and development expense. Increased general and administrative expense during the current six-month period was primarily due to increased accounting and auditing fees as well as consulting services related to late filings of Form 10-K for the year ended March 31, 2007 and Form 10-Q for the period ended June 30, 2007, as previously discussed. Increased expenses for sales and marketing were related to increased advertising campaigns. Decreased research and development expense for the current six-month period reflects the Company s efforts to contain expenses where possible. While it is our goal to contain discretionary operating spending in our research and development, sales and marketing, and general and administrative activities, it may become necessary for the Company to selectively increase spending in some or all of these areas to remain competitive and to comply with regulatory requirements.

Net other expense, which includes interest on the Company s debt, for the six months ended September 30, 2007 was comparable to the same period of the prior fiscal year.

For the six months ended September 30, 2007, an income tax expense of $10,000 was recorded compared to an income tax benefit recorded of $6,000 for the same period of the prior year. The Company does not expect any additional United States income taxes for the current fiscal year as a result of available net operating loss carry-forwards.

The Company recorded a net loss of $726,000 or ($0.14) per diluted share for the six month period ended September 30, 2007. For the same period a year ago the Company reported net loss of $919,000 or ($0.18) per diluted share.

Variability of Results

The Company has experienced significant quarterly fluctuations in operating results and anticipates that these fluctuations may continue in future periods. As described in previous paragraphs, operating results have fluctuated as a result of changes in sales levels to our customers, competition (both pricing, new products and other market trends) and production difficulties, including increased production costs and variable production results. The Company has also, during its history, experienced production difficulties as a result of inclement weather, changes in the mix between sales of bulk and packaged consumer products and start up costs associated with new product introductions, new facilities and expansion into new markets. In addition, future operating results may fluctuate as a result of factors beyond the Company s control such as foreign exchange fluctuations, changes in government regulations, and economic changes in the regions it operates in and sells to. A portion of our operating expenses are relatively fixed and the timing of increases in expense levels is based in large part on forecasts of future sales. Therefore, if net sales are below expectations in any given period, the adverse impact on results of operations may be magnified by our inability to meaningfully adjust spending in certain areas, or the inability to adjust spending quickly enough, as in personnel and administrative costs, to compensate for a sales shortfall. We may also choose to reduce prices or increase spending in response to market conditions, and these decisions may have a material adverse effect on financial condition and results of operations.

Financial Condition

Cash and cash equivalents decreased $686,000 or 48% to $758,000 at September 30, 2007, from $1.4 million at March 31, 2007. This decrease in cash resulted from cash used in operating activities of $445,000, as well as cash used in investing activities of $48,000, and cash used in financing activities of $193,000. Cash used in operating activities for the six months ended September 30, 2007 reflects increases in inventory of $401,000, prepaid and other assets of $146,000, offset partially by a decrease in accounts receivable of $174,000 and an increase in accounts payable of $411,000. Such net negative impact on cash results from the foregoing items combined with a net loss of $726,000 before non-cash adjustments for depreciation and amortization of $287,000. Cash flows used in investing activities reflect capital expenditures during the first six months of fiscal 2008. Cash flows used in financing activities are attributable to debt payments during that period.

As of September 30, 2007, the Company s net accounts receivable decreased $174,000 to $1,413,000 from $1,587,000 as of March 31, 2007. The decrease in accounts receivable is primarily the result of the timing of collection on the customer s accounts. The Company believes that its accounts receivable are collectible net of the allowance for doubtful accounts of $23,000 at September 30, 2007.

The Company s net inventory increased $401,000 or 25% to $1,994,000 as of September 30, 2007 compared to $1,593,000 as of March 31, 2007. The increase in inventory during the first six months of fiscal 2008 is primarily due to producing more oleoresin, a product derived from astaxanthin, in the first six months of fiscal 2008 than in the comparable period of fiscal 2007. This is consistent with the Company s transition emphasizing human astaxanthin products.

Liquidity and Capital Resources

The Company has recently experienced a number of factors that have negatively impacted its balance sheet and liquidity, including the following:

The Company has experienced significant recurring net losses. At March 31, 2007, the Company had an accumulated deficit of $19,920,000 compared to an accumulated deficit of $12,495,000 at March 31, 2006. This accumulated deficit increased by $726,000 for the six months ended September 30, 2007. As discussed earlier, and as required under Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets, as of March 31, 2007 the Company recorded a non-cash impairment charge reducing, by $4.5 million, the values of certain production equipment and leasehold improvement assets. *This non-cash charge did not impact liquidity.*

The Company s business has not generated positive cash from operating activities in five of the eight quarters during fiscal years ended March 31, 2007 and 2006, nor during the quarter and year to date covered by this report.

Material weaknesses in its internal controls, as previously reported, have caused the Company to experience delays in completing its consolidated financial statements and filing periodic reports with the U.S. Securities and Exchange Commission (the SEC) on a timely basis. Accordingly, the Company continues to devote substantial additional internal resources, and experience higher than expected fees for audit services. As a result of the hiring of key financial personnel early in the second quarter of fiscal 2008, the Company does not anticipate delayed filings in future periods.

Sources of Liquidity

For the six months ended September 30, 2007, cash decreased $686,000 to $758,000 from $1,444,000 at March 31, 2007. Working capital for the same six month period decreased by $689,000 to $2,672,000 from $3,361,000 at March 31, 2007, primarily as a result of decreases in cash and increases to accounts payable and inventory in the current six month period.

The decrease in cash resulted primarily from cash used from operating activities, capital expenditures, and payments on the Company s long-term debt. Cash used in operating activities for the six month period ended September 30, 2007 was $445,000 compared to cash used in operations of $50,000 for the comparable prior period. Capital expenditures totaled $48,000 for the six months ended September 30, 2007 compared to $167,000 for the comparable prior year period. Cash used in financing activities included repayments of the Company s long-term debt of $193,000 and $177,000 for the six months ended September 30, 2007 and 2006, respectively.

The Company s contractual obligations and commitments (consisting of a term loan and operating leases) are disclosed below and in the Company s 2007 Annual Report on Form 10-K in the following sections: Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, and Item 8 Financial Statements and Supplementary Data Notes 5 and 6 of Notes to Consolidated Financial Statements. There were no significant changes in contractual obligations and commitments from March 31, 2007 to September 30, 2007. The Company is not aware of any other significant cash or contractual obligations as of the filing date of this Form 10-Q.

Significant Cash and Contractual Obligations

The following table presents the Company s debt and lease obligations at September 30, 2007:

(in thousands)	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
Term Loan	$ 405	$ 792	$	$	$ 1,197
Interest Expense on Term Loan	95	66			161
Operating Leases	186	327	296	1,953	2,762
Total	$ 686	$ 1,185	$ 296	$ 1,953	$ 4,120

Sufficiency of Liquidity

Based upon our current operating plan, analysis of our consolidated financial position and projected future results of operations, we believe that our operating cash flows, cash balances, and working capital, together with a moderate amount of additional borrowing, will be sufficient to finance current operating requirements, debt service, and planned capital expenditures, for the next 12 months. With total working capital of $2.7 million, and a current ratio of 2.5 as of September 30, 2007, management expects liquidity in fiscal 2008 to be generated from operating cash flows, working capital, and moderate borrowing during fiscal 2008 or 2009 to offset the $709,000, as disclosed in the Company s Form 10-K for the year ended March 31, 2007, expended to restate the Company s results, file Form 10-K/A, and take other actions relating to restating the year ended March 31, 2006. Since the Company has repaid well over half of its $3.5 million senior debt since fiscal year 2002, the Company is reasonably confident that it will be able to secure additional funds and is now negotiating with the current lender for additional funding. The Company cannot provide assurance that such funding will be attained.

Capital Resources

The Company does not currently have any material commitments for capital expenditures. The Company expects fiscal 2008 capital expenditures to be under $250,000 which approximates those of fiscal 2007. This includes capital expenditures in support of the Company s normal operations, and expenditures that we may incur in conjunction with initiatives to improve gross margins and reduce expenses.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , included in our Form 10-K for the fiscal year ended March 31, 2007.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 . The Company adopted FIN No. 48 on April 1, 2007. The adoption of this interpretation did not have a material impact on its consolidated financial statements.

Outlook

This outlook section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially.

Cyanotech Corporation s strategic direction is to position itself as a world-leader in the production and marketing of high-value natural products from microalgae. We are vertically aligned; producing raw materials in the form of microalgae processed at our 90-acre facility in Hawaii, and integrating those raw materials into finished products. In fiscal 2008, we will continue to focus on the business-to-business wholesale market for the products and compounds that we produce, but will put greater emphasis on our Nutrex Hawaii consumer products with introduction of new product lines. Our current product offerings include Naturally Cultivated Spirulina Pacifica® in powder, flake and tablet form, *NatuRose*®

natural astaxanthin powder for the animal nutrition market, *BioAstin*® natural astaxanthin antioxidant in lipid extract, softgel caplet and micro-encapsulated beadlet form for the human nutrition and cosmetic industries and Phycobiliproteins for use in medical diagnostics. Information about our Company and our products can be viewed at www.cyanotech.com, www.nutrex-hawaii.com or www.phycobiliprotein.com. Consumer products can also be purchased online at www.nutrex-hawaii.com.

We are currently experiencing an upward trend in sales with unit sales increasing during the second quarter of fiscal 2008 as compared to the second quarter of fiscal 2007. The most significant impact was due to an increase in the human astaxanthin bulk product line. The Company expects spirulina sales to remain essentially level since the product has reached a mature life cycle stage. However, significant variability between periods and even across several periods can be expected based on historical results.

As discussed in Note 1 of Notes to Consolidated Condensed Financial Statements the Company has discontinued all business activity of its wholly owned Japanese subsidiary CJYK . The Company made this decision due to declining sales of approximately 40% in each of the prior two fiscal years in addition to declining gross profit margins of 13% and 4% for fiscal 2007, and the six months ended September 30, 2007, respectively. CJYK sales for fiscal year 2007 and the six months ended September 30, 2007, were $482,000 and $45,000, respectively. We do not expect the discontinuance of this subsidiary to have a significant impact on our consolidated financial statements.

Overall costs are increasing in part because of non-U.S. product registration costs and increasing labor, chemical, utility and transportation costs. We feel that these conditions will likely remain, which places significant pressure on being able to deliver profitable natural astaxanthin products in the animal nutrition market. Consequently, we are shifting our natural astaxanthin production into higher value products such as *BioAstin* for human consumption until such time as reasonably profitable animal nutrition markets are identified.

With particular focus on *BioAstin*, the Company s human natural astaxanthin product line, the Company is exploring options to expand consumer brand awareness, knowledge of its product line, and brands related to its product lines. To accomplish these objectives, the Company, among other initiatives, has hired a knowledgeable sales employee, based in the continental U.S., to increase the Company s outreach to both the U.S. and European markets. We will be introducing new product lines, to be sold primarily through our Nutrex Hawaii subsidiary, during fiscal year 2008.

Gross profit margin percentages in fiscal year 2008 are expected to increase in comparison to fiscal year 2007 results. We identified and corrected imbalances in astaxanthin production in the fourth quarter of fiscal 2007. These imbalances negatively impacted fiscal year 2007 gross margins and we expect this imbalance correction to result in increased gross margins as a percentage of sales during fiscal 2008. With competition increasing and higher production costs, pressure is placed on achieving a reasonable profit margin.

With the adoption of SFAS No. 151, the Company recognizes costs associated with abnormal amounts of idle facility expense, freight, handling costs and wasted materials (such as spoilage) as current-period charges in cost of sales. When production costs exceed historical averages, the Company evaluates whether such costs are current-period charges or are inventoriable. In addition, the allocation of fixed production overheads (such as depreciation and general insurance) to inventories is determined based on normal production capacity. When the Company s production volumes are below normal capacity limits, certain fixed production overhead costs cannot be inventoried and are recorded immediately in cost of sales. Currently, the Company s natural astaxanthin production is approaching levels experienced prior to fiscal year 2007. Producing the highest quality microalgae is a complex biological process which requires balancing numerous factors including microalgal strain variation, temperature, acidity, nutrient and other environmental considerations, some of which are not within the Company s control.

To manage its cash resources effectively, the Company will continue to balance production in light of sales demand, minimizing the cost associated with build-ups in inventory. The Company has experienced other significant cash outflows and may need to utilize other cash resources to meet working capital needs if prolonged net losses are incurred in future periods. A prolonged downturn in sales could impair the Company s ability to generate sufficient cash for operations and minimize the Company s ability to attract additional capital investment which could become necessary in order to expand into new markets or increase product offerings.

The Company expects operating expense spending to remain consistent with or moderately increase from fiscal 2007 levels after the exclusion of the previously mentioned non-cash impairment write-down and SFAS No. 144 related costs. However, by March 31, 2008, the Company is required to be in full compliance with the Sarbanes-Oxley Act and Rules issued thereunder by the Securities and Exchange Commission, including Section 404 Compliance Standards established by the Public Companies Accounting Oversight Board. The cost of attaining and maintaining such compliance could materially decrease reported net income or increase reported net losses in future periods.

The Company s future results of operations and the other forward-looking statements contained in this Outlook, in particular the statements regarding revenues, gross margin and capital spending involve a number of risks and uncertainties. In addition to the factors discussed above, any of the following could cause actual results to differ materially: business conditions and growth in the natural products industry and in the general economy; changes in customer order patterns; changes in demand for natural products in general; changes in weather conditions; competitive factors, such as increased production capacity from competing spirulina and astaxanthin producers and the resulting impact, if any, on world market prices for these products; government actions; shortage of manufacturing capacity; and other factors beyond our control. Risk factors are discussed in detail in Item 1A in our Form 10-K report for the year ended March 31, 2007.

Cyanotech believes that it has the products, facilities, personnel, competitive, and financial resources for improved results, but future revenues, costs, gross margins and profits are all influenced by a number of factors, as discussed above, all of which are inherently difficult to forecast.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We have never entered into any transactions using derivative financial instruments or derivative commodity instruments and believe that our exposure to market risk associated with other financial instruments is not material.

We have a term loan agreement that adjusts quarterly based on the prime rate. As such, we are exposed to the interest rate risk whereby a 1% increase in the prime rate would lead to an increase of approximately $12,000 in interest expense for the year ending March 31, 2008 (based on September 30, 2007 amounts outstanding).

Item 4. Controls and Procedures

(a) **Disclosure Controls and Procedures**

This Form 10-Q should be read in conjunction with Item 9A Controls and Procedures of the Company s Form 10-K for the fiscal year ended March 31, 2007 filed August 16, 2007. There were no material changes in Controls and Procedures during the current quarter. As of September 30, 2007, the Company believes its systems and procedures are sufficient to reasonably ensure accurate financial data, but it has concluded that due to a lack of adequately trained internal accounting resources, there exists more than a remote likelihood that a material misstatement to the interim financial statements could occur and not be detected by procedures and controls over financial reporting on a timely basis. This material weakness in internal control over financial reporting has led to an inability to produce timely filings over the past year. The Company s new Controller-Inventory and Cost Accounting began employment on July 9, 2007. However, the duties and tasks associated with that position have not yet been fully integrated into the Company s accounting and internal controls. Until this integration and related tasks are fully accomplished the Company believes that a material weakness exists.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Certain Factors Affecting Cyanotech Corporation

The Company has included in Part I, Item 1A of its Annual Report on Form 10-K for the year ended March 31, 2007, a description of certain risks and uncertainties that could affect the Company s business, future performance or financial condition (the Risk Factors). There are no material changes from the disclosure provided in the Form 10-K for the year ended March 31, 2007 with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to the Company.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

Submission of Matters to a Vote of Security Holders

On September 24, 2007, the following matters were submitted and voted by stockholders entitled to vote at the Company s Annual Meeting of Stockholders:

The votes shown below are adjusted for the Company s previously reported one for four reverse stock split.

a) The following directors were elected to serve until the next Annual Meeting or until their successors are elected.

	For Votes	Withheld Votes
Gerald R. Cysewski	4,095,456	188,188
Michael A. Davis	4,090,509	193,135
Gregg W. Robertson	4,093,634	190,010
David I. Rosenthal	4,096,296	187,348
John T. Waldron	4,102,599	181,045
Paul C. Yuen	4,095,972	187,672

b) Ratification of the selection of KPMG LLP as the Company s Independent Registered Public Accounting Firm for the fiscal year ending March 31, 2008. The vote on the ratification was 4,035,624 for, 230,874 against, and 17,146 abstaining.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are furnished with this report:

31.1 Certification by the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act

31.2 Certification by the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act

32.1 Certification by the Chief Executive Officer pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification by the Chief Financial Officer pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

CYANOTECH CORPORATION (Registrant)

November 7, 2007 (Date)	By:	/s/Gerald R. Cysewski Gerald R. Cysewski Chairman of the Board, President and Chief Executive Officer
November 7, 2007 (Date)	By:	/s/William R. Maris William R. Maris Vice President Finance & Administration, Chief Financial Officer (Principal Financial and Accounting Officer)