Applied Minerals, Inc.
Form 10-Q
May 22, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

Transition report under section 13 or 15(d) of the Exchange Act

For the transition period from to

Commission File Number 000-31380

APPLIED MINERALS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**82-0096527**
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
55 Washington Street - Suite 301, Brooklyn, NY	**11201**
(Address of principal executive offices)	(Zip Code)

(212) 226-4265
(Issuer's Telephone Number, Including Area Code)

Former name, former address, and former fiscal year, if changed since last report

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller-reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company X
Emerging growth company

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO X

The number of shares of the registrant's common stock, $0.001 par value per share, outstanding as of May 22, 2018 was 164,138,549.

DOCUMENTS INCORPORATED BY REFERENCE: None.

Table of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Company)

FIRST QUARTER 2018 REPORT ON FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$72,167	$47,652
Accounts receivable	17,870	27,265
Deposits and prepaid expenses	149,602	205,922
Total Current Assets	239,639	280,839
Property and Equipment, net	2,479,247	2,802,391
Other Assets - Deposits	216,863	240,934
TOTAL ASSETS	$2,935,749	$3,324,164
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
Current Liabilities		
Accounts payable and accrued liabilities	$970,580	$963,609
PIK Note interest accrual	318,464	57,334
Current portion of notes payable	118,252	212,134
Total Current Liabilities	1,407,296	1,233,077
Long-Term Liabilities		
PIK Notes payable, net of $7,542,091 and $9,755,832 debt discount, respectively	35,520,026	33,244,605
PIK Note derivative	10,227,191	2,047,264
Total Long-Term Liabilities	45,747,217	35,291,869
TOTAL LIABILITIES	47,154,513	36,524,946
Stockholders' (Deficit)		
	- 0 -	-0 -

Preferred stock, $0.001 par value, 10,000,000 shares authorized, none issued and outstanding		
Common stock, $0.001 par value, 400,000,000 shares authorized, 150,388,549 and 140,763,549 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	150,389	140,764
Additional paid-in capital	72,200,686	71,152,311
Accumulated deficit prior to the exploration stage	(20,009,496)	(20,009,496)
Accumulated deficit during the exploration stage	(96,560,343)	(84,484,361)
Total Stockholders' (Deficit)	(44,218,764)	(33,200,782)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	$2,935,749	$3,324,164

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

Table of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended March 31, 2018	March 31, 2017
REVENUES	$45,647	$795,282
OPERATING EXPENSES:		
Production costs	171,596	787,121
Exploration costs	55,951	243,270
General and administrative	1,199,046	986,628
Depreciation expense	323,144	330,785
Total Operating Expenses	1,749,737	2,347,804
Operating Loss	(1,704,090)	(1,552,522)
OTHER (EXPENSE):		
Interest expense, net, including amortization of deferred financing cost and debt discount	(2,542,051)	(2,073,194)
(Loss) gain on revaluation of PIK Note derivative	(8,179,927)	895,724
Other income, net	350,086	1,552
Total Other (Expense)	(10,371,892)	(1,175,918)
NET LOSS	$(12,075,982)	$(2,728,440)
Net Loss Per Share (Basic and Diluted)	$(0.08)	$(0.03)
Weighted Average Shares Outstanding (Basic and Diluted)	145,620,493	108,613,549

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

4

Table of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(Unaudited)

	Common Stock					
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit Prior to Exploration Stage	Accumulated Deficit During Exploration Stage	Total Stockholders' Deficit
Balance, December 31, 2017	140,763,549	$140,764	$71,152,311	$(20,009,496)	$(84,484,361)	$(33,200,782)
Shares issued for consulting services	1,500,000	1,500	58,500	- 0 -	- 0 -	60,000
Shares issued in private placement	7,625,000	7,625	387,375	- 0 -	- 0 -	395,000
Shares issued for warrant exercise	500,000	500	19,500	- 0 -	- 0 -	20,000
Stock option compensation expense	- 0 -	- 0 -	583,000	- 0 -	- 0 -	583,000
Net Loss	- 0 -	- 0 -	- 0 -	- 0 -	(12,075,982)	(12,075,982)
Balance, March 31, 2018	150,388,549	$150,389	$72,200,686	$(20,009,496)	$(96,560,343)	$(44,218,764)

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

Table of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Three Months Ended March 31, 2018	2017
Cash Flows from Operating Activities:		
Net loss	$(12,075,982)	$(2,728,440)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation	323,144	330,785
Amortization of discount - PIK Notes	2,190,989	1,044,238
Amortization of deferred financing costs	22,751	1,875
Issuance of PIK Notes in payment of interest	61,681	762,458
Stock issued for director fees	- 0 -	65,862
Stock issued for consulting services	60,000	- 0 -
Stock based compensation expense	583,000	- 0 -
(Gain) loss on revaluation of PIK Note derivative	8,179,927	(895,724)
Change in operating assets and liabilities:		
Accounts receivable	9,395	12,529
Other current receivables	- 0 -	16,339
Deposits and prepaids	80,391	142,251
Accounts payable and accrued liabilities	268,101	506,270
Net cash used in operating activities	(296,603)	(741,557)
Cash Flows From Investing Activities	- 0 -	- 0 -
Cash Flows From Financing Activities:		
Payments on notes payable	(93,882)	(90,078)
Proceeds from sale of common stock	395,000	- 0 -
Proceeds from exercise of options or warrants	20,000	- 0 -
Net cash provided by (used in) financing activities	321,118	(90,078)
Net change in cash and cash equivalents	24,515	(831,635)
Cash and cash equivalents at beginning of period	47,652	1,049,880

Cash and cash equivalents at end of period	$72,167	$218,245
Supplemental disclosure of cash flow information:		
Cash paid for interest	$5,501	$1,527

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

Table of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Consolidated Financial Statements

NOTE 1– ORGANIZATION AND DESCRIPTION OF BUSINESS

Applied Minerals, Inc. (the “Company” or “we” or “us”) is focused primarily on (i) the development, marketing and sale of our halloysite clay-based DRAGONITE™ line of products for use in advanced applications such as, but not limited to, reinforcement additives for polymer composites, flame retardant additives for polymers, catalysts, controlled release carriers for paints and coatings, strength reinforcement additives for cement, concrete, mortars and grouts, advanced ceramics, rheology additives for drilling fluids, environmental remediation media, and carriers of agricultural agents and (ii) the development, marketing and sale of our AMIRON™ line of iron oxide products for pigmentary and technical applications. Halloysite is an aluminosilicate with a tubular structure that provides functionality for a number of applications. Iron oxides are inorganic compounds that are widely used as pigments in paints, coatings and colored concrete.

The Company owns the Dragon Mine, which has significant deposits of high-quality halloysite clay and iron oxide. The 267-acre property is located in southwestern Utah and its resource was mined for halloysite on a large-scale, commercial basis between 1949 and 1976 for use as a petroleum cracking catalyst. The mine was idle until 2001 when the Company leased it to initially develop its halloysite resource for advanced, high-value applications. We purchased 100% of the property in 2005. After further geological characterization of the mine, the Company identified a high-purity, natural iron oxide resource that it has commercialized to supply certain pigmentary and technical markets.

The Company has a mineral processing plant with a capacity of up to 45,000 tons per annum for certain applications that is currently dedicated to the processing of its AMIRON product. The Company has a smaller processing facility with a capacity of 5,000 – 10,000 tons per annum that is currently dedicated to its halloysite resource. The Company believes it can increase its halloysite production capacity to meet an increase in demand through (i) an expansion of our on-site production capacity through a relatively modest capital investment and (ii) the use of a manufacturing tolling agreement.

The Company currently sells its DRAGONITE product as functional additive for advanced molecular sieves, as a nucleating agent for injection molding applications and as a binder for ceramic applications. For a number of markets mentioned above, the Company is currently working with a number of customers, which are in the latter stages of commercializing new and existing products that will utilize DRAGONITE as a functional additive.

For the three months ended March 31, 2018, the largest customer during the period accounted for 47% of total revenue and amounts owed by the largest customer represented 0% of accounts receivable. For the three months ended March 31, 2017, the largest customer during the period accounted for 55% of total revenue and amounts owed by the largest customer represented 62% of accounts receivable.

Applied Minerals is a publicly traded company incorporated in the state of Delaware. The common stock trades on the OTCQB under the symbol AMNL.

Exploration Agreement

On December 22, 2017, the Company and Continental Mineral Claims, Inc. ("CMC") entered into an Exploration Agreement with Option to Purchase ("Agreement"). The Company granted to CMC the exclusive right and option to enter upon and conduct mineral exploration activities (the "Exploration License") for Metallic Minerals on the Company's Dragon Mine minesite in Utah (the "Mining Claims"). Metallic Minerals are defined to include minerals with a high specific gravity and metallic luster, such as gold, silver, lead, copper, zinc, molybdenum, titanium, tungsten, uranium, tin, iron, etc., but shall exclude any such Metallic Minerals that are intermingled within any economically-recoverable, non-metallic mineral deposits located at or above an elevation of 5,590 feet above sea level. Non-metallic minerals include clay and iron oxide, the minerals mined by the Company. The Company believes that all economic recoverable non-metallic mineral deposits are well above 5,590 feet above sea level. The Exploration License is for a period of ten years.

In consideration of the Exploration License CMC has paid the Company $350,000 and will pay it $150,000 on or before the first anniversary of the Exploration License, $250,000 on or before each subsequent anniversary during the Exploration License term following the first anniversary of the Effective Date of this Agreement, unless the Exploration License is terminated earlier by CMC by exercising the option or failing to make the required payment for the Exploration License.

CMC may exercise the option at any time during the Exploration License term. Upon exercise of the Option and the completion of the closing, CMC shall acquire 100% of the Metallic Rights within the Mining Claims from the Company, subject to the terms and conditions of the Agreement.

The consideration to be paid by CMC to the Company after exercising the option for the acquisition of the Metallic Rights shall be payable as follows: $3,000,000; and, CMC shall grant to the Company a five percent (5%) Net Profits Interest ("NPI") royalty over the Metallic Minerals produced from the Mining Claims. The NPI royalty shall be initially capped at $20,000,000 (the "NPI Cap"). The NPI Cap shall be subject to reduction in the event the Company elects to take the Share Contribution, as set forth below.

Upon exercise of the option, the Company shall retain the all rights and title to (1) the surface interest (with exception of those rights associated with the Metallic Rights), and (2) all non-metallic minerals (expressly including all industrial minerals including clays and iron oxides).

It is anticipated that CMC will acquire rights similar to the Metallic Rights with respect to contiguous and nearly properties and such rights will be contributed to a new company formed or designated by CMC to own and operate CMC's Tintic District project, which would involve the Metallic rights and similar rights regarding adjacent or nearby properties ("PubCo") that intends to go public.

Table of Contents

The Company shall have the right, at its sole election, to convert a portion of its NPI royalty interest into $2,000,000 worth of shares in PubCo up to a maximum of Two Percent (2%) net value of PubCo (the "Share Contribution"), through a reduction of the NPI Cap. The Company shall make the determination whether to take the Share Contribution or not, and so notify CMC, within ninety (90) days, of the completion (and delivery to the Company) of a feasibility study by CMC for the Tintic District project. If the Company elects not to take the Share Contribution, the Company's NPI royalty shall remain unchanged, including the NPI Cap, which will remain at $20,000,000.

The Agreement contains protections in favor of the Company against unreasonable interference of its current and future mining operations by CMC. CMC may not do anything that may, at the Company's determination, adversely impact the Company's Mining Operations. "Mining Operations" shall mean the activities incident to mineral extraction, permitting, and any operations by CMC or the Company relating to the removal of minerals, respectively, that are or may reasonably be conducted on the Mining Claims, including the exploration for, and development, active mining, removing, producing and selling of any minerals, including the Metallic Minerals. The Agreement states that the parties understand that the Company is willing to enter into the Agreement only if it is assured that CMC will not have any right to unreasonably interfere with the Company's current mining operations and possible future Mining Operations on the Mining Claims.

There are no assurances that CMC will exercise its option to purchase 100% of the Metallic Rights.

NOTE 2 - LIQUIDITY AND BASIS OF PRESENTATION

The Company has a history of recurring losses from operations and the use of cash in operating activities. For the three months ended March 31, 2018, the Company's net loss was $12,075,982 and cash used in operating activities was $296,603. As of March 31, 2018, the Company had current assets of $239,639 and current liabilities of $1,407,296 of which $318,464 was accrued PIK Note interest expected to be paid in additional PIK Notes. The Company's current liabilities also include (i) $183,149 of accrued management bonus payable as determined by the Company's Audit Committee, (ii) $118,252 of a note payable related to the financing of the Company's D&O and G/L policies, (iii) $158,700 of payables to a compounder for which it has agreed to satisfy in halloysite product and (iv) $156,200 of disputed accrued expenses for which the Company believes it has a statute of limitations defense.

Based on the Company's current cash usage expectations, management believes it will not have sufficient liquidity to fund its operations through May 22, 2019. Further, management cannot provide any assurance that it is probable that the Company will be successful in accomplishing any of its plans to raise debt or equity financing or generate additional product sales. Collectively these factors raise substantial doubt regarding the Company's ability to continue as going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded assets amounts and classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

Management believes that in order for the Company to meet its obligations arising from normal business operations through May 22, 2019 that the Company requires (i) additional capital either in the form of a private placement of common stock or debt and/or (ii) additional sales of its products that will generate sufficient operating profit and cash flows to fund operations. Without additional capital or additional sales of its products, the Company’s ability to continue to operate will be limited.

NOTE 3– BASIS OF REPORTING AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements of Applied Minerals, Inc. have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, these interim unaudited condensed consolidated financial statements contain all of the adjustments of a normal and recurring nature which are considered necessary for a fair presentation of the financial position of the Company and the results of its operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the operating results for the entire year. These financial statements should be read in conjunction with the financial statements and related disclosures for the year ended December 31, 2017, included in the Annual Report of Applied Minerals, Inc. on Form 10-K filed with the SEC on April 17, 2018.

The accompanying interim unaudited condensed consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes. As of May 22, 2018, the Company’s significant accounting policies and estimates remain unchanged from those detailed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Table of Contents

Exploration-Stage Company

Effective January 1, 2009, the Company was, and still is, classified as an exploration company because the existence of proven or probable reserves at the Company's Dragon Mine property have not been demonstrated and no significant revenue has been earned from the mine. Under the SEC's Industry Guide 7, a mining company is considered an exploration stage company until it has declared mineral reserves determined in accordance with the guide and staff interpretations thereof.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Applied Minerals, Inc. and its inactive subsidiary, which holds 100 acres of timber and mineral property in northern Idaho.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. In these consolidated financial statements, the warrant and PIK note derivative liabilities, stock compensation, impairment of long-lived assets and valuation allowance on income taxes involve extensive reliance on management's estimates. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less. The Company minimizes its credit risk by investing its cash and cash equivalents, which sometimes exceeds FDIC limits, with major financial institutions located in the United States with a high credit rating.

Receivables

Trade receivables are reported at outstanding principal amounts, net of an allowance for doubtful accounts.

Management evaluates the collectability of receivable account balances to determine the allowance, if any. Management considers the other party's credit risk and financial condition, as well as current and projected economic and market conditions, in determining the amount of the allowance. Receivable balances are written off when management determines that the balance is uncollectable. No allowance was required at March 31, 2018 and 2017.

Property and Equipment

Property and equipment are carried at cost net of accumulated depreciation and amortization. Depreciation and amortization is computed on the straight-line method over the estimated useful lives of the assets, or the life of the lease, whichever is shorter, as follows:

	Estimated Useful Life (years)
Building and Building Improvements	5 – 40
Mining equipment	2 – 7
Office and shop furniture and equipment	3 – 7
Vehicles	5

Depreciation expense for the three months ended March 31, 2018 and 2017 totaled $323,144, and $330,785, respectively.

Impairment of Long-lived Assets

The Company periodically reviews the carrying amounts of long-lived assets to determine whether current events or circumstances warrant adjustment to such carrying amounts. Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, the Company compares the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset to its carrying amount. If this comparison indicates that there is an impairment, the amount of the impairment is typically calculated using discounted expected future cash flows where observable fair values are not readily determinable. Considerable management judgment is necessary to estimate the fair value of assets. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value, less cost to sell. The Company has determined that there was no impairment of its long-lived assets as of March 31,2018 and 2017.

Revenue Recognition

Revenue includes sales of halloysite clay and iron oxide during 2017 and is recognized when title passes to the buyer and when collectability is reasonably assured. Title passes to the buyer based on terms of the sales contract. Product pricing is determined based on contractual arrangements with the Company's customers.

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance on revenue recognition, which provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes most existing revenue recognition guidance. The main principle under this guidance is that an entity should recognize revenue at the amount it expects to be entitled to in exchange for the transfer of goods or services to customers. The Company identified the predominant changes to its accounting policies resulting from the application of this guidance and quantified the impact on its consolidated financial statements. The cumulative effect of the initial adoption of this guidance did not have any significant impact on the Company’s consolidated financial statements as the Company did not have any significant customer contracts in place at December 31, 2017. The Company adopted this guidance on January 1, 2018. For 2018, revenue is recognized when product transfers to the customer.

Mining Exploration and Development Costs

Land and mining property are carried at cost. The Company expenses prospecting and mining exploration costs. At the point when a property is determined to have proven and probable reserves, subsequent development costs will be capitalized and will be charged to operations using the units-of-production method over proven and probable reserves. Upon abandonment or sale of a mineral property, all capitalized costs relating to the specific property are written off in the period abandoned or sold and a gain or loss is recognized.

Table of Contents

Income taxes

The Company uses an asset and liability approach which results in the recognition of deferred tax liabilities and assets for the expected future tax consequences or benefits of temporary differences between the financial reporting basis and the tax basis of assets and liabilities, as well as operating loss and tax credit carry forwards, using enacted tax rates in effect in the years in which the differences are expected to reverse.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. A full valuation allowance has been provided for the Company's net deferred tax assets as it is more likely than not that they will not be realized.

Authoritative guidance provides that the tax effects from an uncertain tax position taken or expected to be taken in a tax return can be recognized in our financial statements only if the position is more likely than not of being sustained on audit based on the technical merits of the position. As of December 31, 2017no benefit from uncertain tax positions was recognized in our financial statements. The Company has elected to classify interest and/or penalties related to income tax matters in income tax expense.

Stock Options and Warrants

The Company follows ASC 718 (Stock Compensation) and 505-50 (Equity-Based Payments to Non-employees), which provide guidance in accounting for share-based awards exchanged for services rendered and requires companies to expense the estimated fair value of these awards over the requisite service period. The Company instituted a formal long-term and short-term incentive plan on November 20, 2012, which was approved by its shareholders. Prior to that date, we did not have a formal equity plan, but all equity grants, including stock options and warrants, were approved by our Board of Directors. We determine the fair value of the stock-based compensation awards granted to non-employees as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either of (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete. Beginning in the quarter ended June 30, 2013 the Company began using the simplified method to determine the expected term for any options granted because the Company did not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. The Company previously utilized the contractual term as the expected term.

Environmental Matters

Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures resulting from the remediation of existing conditions caused by past operations that do not contribute to future revenue generations are expensed. Liabilities are recognized when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated.

Estimates of such liabilities are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors, and include estimates of associated legal costs. These amounts also reflect prior experience in remediating contaminated sites, other companies' clean-up experience and data released by The Environmental Protection Agency or other organizations. Such estimates are by their nature imprecise and can be expected to be revised over time because of changes in government regulations, operations, technology and inflation. Recoveries are evaluated separately from the liability and, when recovery is assured, the Company records and reports an asset separately from the associated liability.

Based upon management's current assessment of its environmental responsibilities, it does not believe that any reclamation or remediation liability exists at March 31, 2018.

Recent Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance on revenue recognition, which provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes most existing revenue recognition guidance. The main principle under this guidance is that an entity should recognize revenue at the amount it expects to be entitled to in exchange for the transfer of goods or services to customers. The Company identified the predominant changes to its accounting policies resulting from the application of this guidance and quantified the impact on its consolidated financial statements. The cumulative effect of the initial adoption of this guidance did not have any significant impact on the Company's consolidated financial statements as the Company did not have any significant customer contracts in place at December 31, 2017. The Company adopted this guidance on January 1, 2018.

In February 2016, the FASB issued ASU 2016-02 ("Topic 842") new accounting guidance for leases, which supersedes previous lease guidance. Under this guidance, for all leases with terms in excess of one year, including operating leases, the Company will be required to recognize on its balance sheet a lease liability and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance retains a distinction between finance leases and operating leases and the classification criteria is substantially similar to previous guidance. Additionally, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed. The Company is currently evaluating the impact is guidance on its consolidated balance sheets. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted.

Table of Contents

NOTE 4– PROPERTY AND EQUIPMENT

The following is a summary of property, plant, and equipment – at cost, less accumulated depreciation:

	March 31, 2018	December 31, 2017
Land	$500,000	$500,000
Land improvements	171,122	171,122
Buildings	3,129,519	3,129,519
Mining equipment	1,784,115	1,784,115
Milling equipment	2,841,726	2,841,726
Laboratory equipment	607,716	607,716
Office equipment	70,529	70,529
Vehicles	150,810	150,810
	9,255,537	9,255,537
Less: Accumulated depreciation	(6,776,290)	(6,453,146)
Total	$2,479,247	$2,802,391

NOTE 5– FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

ASC Topic 820,*Fair Value Measurement and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy, which requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1– Quoted prices in active markets for identical assets and liabilities;

Level 2– Inputs other than level one inputs that are either directly or indirectly observable; and

Level 3– Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Liabilities measured at fair value on a recurring basis are summarized as follows at March 31, 2018:

	Fair value measurement using inputs		
	Level 1	**Level 2**	**Level 3**
Financial instruments:			
Series 2023 Note Derivative	$ -0-	$ -0-	$ 876,063
Series A Note Derivative	$ -0-	$ -0-	$ 9,351,128

The following table summarizes the activity during the three months ended March 31, 2018 and 2017 for financial instruments at fair value using Level 3:

Balance at December 31, 2017	$	2,047,264	Balance at December 31, 2016	$	2,176,552
Issuance of additional Series 2023 Notes		- 0 -	Issuance of additional Series 2023 Notes		2,647
Issuance of additional Series A Notes		- 0 -	Issuance of additional Series A Notes		- 0 -
Net unrealized loss included in operations		8,179,927	Net unrealized loss included in operations		(895,724)
Balance at March 31, 2018	$	10,227,191	Balance at March 31, 2017	$	1,283,475

11

Table of Contents

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, receivables, and accounts payable and accrued expenses approximate their fair value at March 31, 2018 and December 31, 2017 based upon the short-term nature of the assets and liabilities. Based on borrowing rates currently available to the Company for loans with similar terms, and the remaining short-term period outstanding, the carrying value of notes payable other than PIK notes approximate fair value. The estimated fair value of the PIK Notes Payable was $12,157,385 and $11,395,208 at March 31, 2018 and December 31, 2017 (Level 3), respectively.

For the Company's warrant and PIK note derivative liabilities, Level 3 fair value hierarchy was estimated using a Monte Carlo Model using the following assumptions:

Series 2023 Note derivative liability	Fair Value Measurements Using Inputs	
	March 31, 2018	December 31, 2017
Market price and estimated fair value of stock	$0.20	$ 0.05
Exercise price (1)	$0.59	$ 0.59
Term (years)	5.33	5.58
Dividend yield	-0-	-0-
Expected volatility	126.3%	115.3 %
Risk-free interest rate	2.58 %	2.24 %

(1) Exercise price is reflective of amended Series 2023 Notes issued in December 2017 as discussed in Note 8.

Series A Note derivative liability	Fair Value Measurements Using Inputs	
	March 31, 2018	December 31, 2017
Market price and estimated fair value of stock	$0.20	$ 0.05
Exercise price (1)	$0.40	$ 0.40
Term (years)	5.33	5.58
Dividend yield	-0-	-0-
Expected volatility	126.3%	115.3 %
Risk-free interest rate	2.58 %	2.24 %

(1) Exercise price is reflective of amended Series A Notes issued in December 2017 as discussed in Note 7.

NOTE 6 - NOTES AND LEASES PAYABLE

Notes payable at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Note payable for equipment, payable $1,339 monthly, including interest (a)	$9,210	$13,073
Note payable to insurance companies, payable $5,045 - $17,959 monthly, (b) and (c)	109,042	199,061
	118,252	212,134
Less: Current Portion	(118,252)	(212,134)
Notes Payable, Long-Term Portion	$- 0 -	$- 0 -

(a) On October 31, 2014, the Company purchased mining equipment for $65,120 by paying deposit and issuing a note in the amount of $57,900 with an interest rate of 5.2%. The note is collateralized by the mining equipment with payments of $1,339 for 48 months, which started on November 30, 2014.

(b) The Company signed a note payable with an insurance company dated October 17, 2016 for liability insurance, payable in monthly installments, including interest ranging from 2.6% - 4.15%

(c) The Company signed a note payable with an insurance company dated October 17, 2017 for liability insurance, payable in monthly installments, including interest ranging from 3.1% - 5.78%

During the three months ended March 31, 2018 and 2017, the Company's interest payments totaled $5,501 and $1,527, respectively.

Table of Contents

NOTE 7– CONVERTIBLE DEBT (PIK NOTES)

The Company raised $23 million of financing through the issuance of two series of Paid-In-Kind ("PIK")-Election Convertible Notes in 2013 ("Series 2023 Notes") and 2014 ("Series A Notes"). The original terms of the Series A Notes included among other things: (i) a maturity of November 1, 2018 with an option to extend to November 1, 2019, (ii) a stated interest rate of 10% paid semi-annually and (iii) a conversion price of $0.90, adjusted downward based on an anti-dilution provision. The original terms of the Series 2023 Notes included among other things: (i) a maturity of August 1, 2023, (ii) a stated interest rate of 10% paid semi-annually and (iii) a conversion price of $1.40, adjusted downward based on an anti-dilution provision. On December 14, 2017, an amendment agreement, entered into between the Company and the holders of the Series A Notes and Series 2023 Notes, went into effect. The agreement resulted in changes to certain terms of the Series A and Series 2023 Notes. The key terms of the Series A and Series 2023 Notes, as amended, are highlighted in the table below:

Key Terms	**Series 2023 Notes**	**Series A Notes**
Inception Date	08/01/2013	11/03/2014
Cash Received	$10,500,000	$12,500,000
Principal (Initial Liability)	$10,500,000	$19,848,486
Maturity (Term)	Matures on August 1, 2023, but convertible into shares of the Company's common stock at the discretion of the holder or by the Company based on the market price of the Company's stock;	Matures on May 1, 2023 but extends to August 1, 2023 if the Series 2023 Notes are still outstanding. Convertible into shares of the Company's common stock at the discretion of the ho