

Applied Minerals, Inc.  
Form 10-Q  
May 11, 2015  
Table Of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2015

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 (I.R.S.  
other Employer  
jurisdiction Identification  
of No.)  
incorporation  
or

organization)

110  
Greene  
Street –  
Suite 10012  
1101,  
New  
York,  
NY  
(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 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 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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller-reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company

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

YES NO

Edgar Filing: Applied Minerals, Inc. - Form 10-Q

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of April 30, 2015 was 95,484,257.

DOCUMENTS INCORPORATED BY REFERENCE: None.

Table Of Contents

**APPLIED MINERALS, INC.**

**(An Exploration Stage Company)**

FIRST QUARTER 2015 REPORT ON FORM 10-Q

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

	Page(s)
Item 1. <u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2015 (unaudited) and December 31, 2014</u>	3
<u>Condensed Consolidated Statements of Operations (unaudited) for the Three Months Ended March 31, 2015 and 2014</u>	4
<u>Condensed Consolidated Statements of Stockholders' Deficit (unaudited) for the Three Months Ended March 31, 2015</u>	5
<u>Condensed Consolidated Statements of Cash Flows (unaudited) for the Three Months Ended March 31, 2015 and 2014</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
Item 4. <u>Controls and Procedures</u>	34

**PART II. OTHER INFORMATION**

Item 1. <u>Legal Proceedings</u>	35
Item 1A <u>Risk Factors</u>	35
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35

Item 3. <u>Defaults Upon Senior Securities</u>	35
Item 4. <u>Mine Safety Disclosures</u>	35
Item 5. <u>Other Information</u>	35
Item 6. <u>Exhibits</u>	36
<u>Signatures</u>	37

Table Of Contents**PART I. FINANCIAL INFORMATION****APPLIED MINERALS, INC.**

(An Exploration Stage Mining Company)

## CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2015	December 31, 2014
<b><u>ASSETS</u></b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,731,293	\$ 10,701,666
Accounts receivable	144,270	112,831
Deposits and prepaid expenses	252,510	289,644
<b>Total Current Assets</b>	<b>8,128,073</b>	<b>11,104,141</b>
<b>Property and Equipment, net</b>	<b>6,729,652</b>	<b>7,055,874</b>
<b>Other Assets</b>		
Deferred Financing Costs	26,875	28,750
Deposits	268,992	268,937
<b>Total Other Assets</b>	<b>295,867</b>	<b>297,687</b>
<b>TOTAL ASSETS</b>	<b>\$ 15,153,592</b>	<b>\$ 18,457,702</b>
<b><u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u></b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 2,491,508	\$ 2,608,364
Current portion of notes payable	142,417	246,894
<b>Total Current Liabilities</b>	<b>2,633,925</b>	<b>2,855,258</b>
<b>Long-Term Liabilities</b>		
Long-term portion of notes payable	50,064	59,145
PIK notes payable, net of \$18,195,280 and \$18,400,297 debt discount, respectively	13,808,269	13,024,439
PIK Note derivatives	10,154,753	10,035,625
<b>Total Long-Term Liabilities</b>	<b>24,013,086</b>	<b>23,119,209</b>
<b>Total Liabilities</b>	<b>26,647,011</b>	<b>25,974,467</b>
<b>Commitments and Contingencies (Note 10)</b>		

**Stockholders' Deficit**

Preferred stock, \$0.001 par value, 10,000,000 shares authorized,  
none issued and outstanding

Common stock, \$0.001 par value, 200,000,000 shares authorized,  
95,450,047 and 95,054,552 shares issued and outstanding at  
March 31, 2015 and December 31, 2014, respectively

Additional paid-in capital

Accumulated deficit prior to the exploration stage

Accumulated deficit during the exploration stage

***Total Stockholders' Deficit***

***TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT***

95,450		95,055
64,743,885		64,526,469
(20,009,496	)	(20,009,496
(56,323,258	)	(52,128,793
(11,493,419	)	(7,516,765
\$ 15,153,592		\$ 18,457,702

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

Table Of Contents**APPLIED MINERALS, INC.**

(An Exploration Stage Mining Company)

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	For the Three Months ended March 31,	
	2015	2014
<b>REVENUES</b>	\$ 162,747	\$ 11,014
<b>OPERATING EXPENSES:</b>		
Production costs	2,235	3,749
Exploration costs	1,327,281	1,197,156
General and administrative	1,182,309	1,254,016
Depreciation expense	326,222	108,386
<b>Total Operating Expenses</b>	<b>2,838,047</b>	<b>2,563,307</b>
Operating Loss	(2,675,300 )	(2,552,293 )
<b>OTHER INCOME (EXPENSE):</b>		
Interest expense, net, including amortization of deferred financing cost and debt discount	(1,028,627 )	(300,167 )
Gain on revaluation of warrant derivative	--	725,000
Gain on revaluation of stock awards	--	38,000
(Loss) gain on revaluation of PIK Note derivative	(92,741 )	1,792,500
Other expense	(397,797 )	(60,265 )
<b>Total Other Income (Expense)</b>	<b>(1,519,165 )</b>	<b>2,195,068</b>
Net loss	(4,194,465 )	(357,225 )
<b>Net Loss Per Share (Basic and Diluted)</b>	<b>\$(0.04 )</b>	<b>\$-0-</b>
<b>Weighted Average Shares Outstanding (Basic and Diluted)</b>	<b>95,107,112</b>	<b>94,692,696</b>

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





Table Of Contents**APPLIED MINERALS, INC.**

(An Exploration Stage Mining Company)

**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)**

(Unaudited)

	Common Stock			Accumulated Deficit Prior to Exploration Stage	Accumulated Deficit During Exploration Stage	Total Stock- holders' Equity
	Shares	Amount	Additional Paid-In Capital			
Balance, December 31, 2014	95,054,552	\$95,055	\$64,526,469	\$(20,009,496)	\$(52,128,793)	\$(7,516,765 )
Shares issued for directors fees and other services	145,495	145	117,728	--	--	117,873
Stock-based compensation expense for consultants and directors	250,000	250	99,688	--	--	99,938
Net Loss	--	--	--	--	(4,194,465 )	(4,194,465 )
Balance, March 31, 2015	95,450,047	\$95,450	\$64,743,885	\$(20,009,496)	\$(56,323,258)	\$(11,493,419)

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

Table Of Contents**APPLIED MINERALS, INC.**

(An Exploration Stage Mining Company)

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	For the Three Months ended March 31,	
	2015	2014
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$(4,194,465 )	\$(357,225 )
Adjustments to reconcile net loss to net cash used in operations		
Depreciation	326,222	108,386
Amortization of discount – PIK Notes	231,404	26,331
Amortization of deferred financing costs	1,875	--
Issuance of PIK Notes in payment of interest	578,813	525,000
Stock issued for director fees and other services	117,873	110,914
Stock-based compensation expense for consultants and directors	99,938	214,850
Gain on revaluation of stock warrant derivative	--	(725,000 )
(Gain) loss on revaluation of PIK Note derivative	92,741	(1,792,500)
Gain on revaluation of stock awards	--	(38,000 )
Change in operating assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(31,439 )	(5,188 )
Deposits and prepaids	37,079	85,196
Increase (Decrease) in:		
Accounts payable and accrued liabilities	(116,856 )	(528,614 )
<b>Net cash used in operating activities</b>	<b>(2,856,815 )</b>	<b>(2,375,850)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	--	(18,539 )
Construction-in-progress	--	(297,169 )
<b>Net cash used in investing activities</b>	<b>--</b>	<b>(315,708 )</b>
<b>Cash Flows From Financing Activities:</b>		
Payments on notes payable	(113,558 )	(122,898 )
<b>Net cash used in financing activities</b>	<b>(113,558 )</b>	<b>(122,898 )</b>
Net change in cash and cash equivalents	(2,970,373 )	(2,814,456)
Cash and cash equivalents at beginning of period	10,701,666	8,685,552

<b>Cash and cash equivalents at end of period</b>	\$7,731,293	\$5,871,096
---	-------------	-------------

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

Table Of Contents

**APPLIED MINERALS, INC.**

(An Exploration Stage Mining Company)

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	For the Three Months ended March 31, 2015    2014	
Cash Paid For:		
Interest	\$4,198	\$3,745
Income Taxes	\$--	\$1,403
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Reclassification of construction in progress to buildings	\$--	\$2,405,648
Reclassification of construction in progress to milling equipment	\$--	\$1,857,727
Reclassification of construction in progress to lab equipment	\$--	\$96,077
Construction-in-progress in accounts payable	\$--	\$120,000

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

Table Of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

**NOTE 1 – BASIS OF PRESENTATION**

In the opinion of management, the accompanying unaudited, condensed, consolidated financial statements contain all adjustments necessary to present fairly the financial position of Applied Minerals, Inc. ("Applied Minerals" or "the Company" or "we") and its results of operations and cash flows for the interim periods presented. Such financial statements have been condensed in accordance with the applicable regulations of the Securities and Exchange Commission and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2014, included in the Company's Annual Report filed on Form 10-K for such year. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the entire year.

**NOTE 2 – ORGANIZATION AND DESCRIPTION OF BUSINESS**

Applied Minerals, Inc. (the "Company") is the owner of the Dragon Mine located in the Tintic Mining District of the State of Utah from where it produces halloysite clay and iron oxide. The Company is currently in various phases of commercial scale trials with several organizations in various markets with respect to uses of its products.

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

**NOTE 3 – LIQUIDITY**

The Company has a history of recurring losses from operations and use of cash in operating activities. For the three months ended March 31, 2015, the Company's net loss was \$4,194,465 and cash used in operating activities was \$2,856,815. As of March 31, 2015, the Company had working capital of \$5,494,148, which will not be sufficient to support its current operations for the next twelve months based on its business plan without obtaining additional financing. Collectively, these factors raise substantial doubt about the Company's ability to continue as a going concern.

Besides continuing its strategic business plan on generating revenue, the Company intends to explore various strategic alternatives, including the sale of equity, debt or the disposal of certain non-core assets to raise additional capital. In November 2014, the Company raised \$12.5 million in capital financing through the issuance of convertible PIK Notes. During 2013, the Company raised gross proceeds of \$16,060,000 pursuant to the sale of common stock and issuance of convertible PIK Notes. Management can also take steps to reduce the Company's future operating expenses as needed. However, the Company cannot provide any assurance that it will be able to raise additional capital as needed. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

#### **NOTE 4- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### Exploration-Stage Company

Effective January 1, 2009, due to the shutdown of our contract mining business, we were, and still are, classified as an exploration company as the existence of proven or probable reserves has 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.

## Table Of Contents

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Applied Minerals, Inc. and its inactive subsidiary 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 condensed consolidated financial statements, the warrant and PIK note derivative liability, stock compensation and impairment of long-lived assets 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 term 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.

### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. 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

During the fourth quarter of 2014, the Company started using a five-year depreciation schedule with respect to its new processing plant that was commissioned in 2014. The five-year depreciation schedule is a change from the 40 years utilized for the building and 7 years utilized for the equipment relating to the new processing plant in the quarterly financial statements for the quarters ended March 31, June 30 and September 30, 2014. This change in useful life resulted in \$587,427 of additional depreciation expense, which was recorded during the fourth quarter of 2014. The impact of the change in the depreciation schedule would not have had a material impact on the consolidated financial statements for the three quarters previously reported on Form 10-Q.

Depreciation expense for the three months ended March 31, 2015 and 2014 totaled \$326,222 and \$108,386, respectively. The Company currently does not capitalize any amounts related to proven or probable reserves and therefore does not have any depletion expense.

#### Fair Value

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.

Table Of Contents

Liabilities measured at fair value on a recurring basis are summarized as follows:

	Fair value measurement using inputs			Carrying amount	
	Level 1	Level 2	Level 3	March 31, 2015	December 31, 2014 (a)
<b>Financial instruments:</b>					
Series 2023 PIK Note Derivative			\$554,128	\$554,128	\$478,149
Series A PIK Note Derivative			\$9,600,625	\$9,600,625	\$9,557,476

The following table summarizes the activity for financial instruments at fair value using Level 3 inputs:

Balance at December 31, 2014	\$10,035,625
Issuance of additional Series 2023 PIK Note	26,387
Net unrealized loss	92,741
Balance at March 31, 2015	\$10,154,753

In the course of preparing its financial statements for the year ended December 31, 2014, the Company (a)reclassified the Series 2023 PIK note derivative to Level 3 fair value hierarchy to match with the Series A PIK note derivative since it based off of a similar model.

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, receivables, other current assets, and accounts payable and accrued expenses approximates the fair value at March 31, 2015 and December 31, 2014 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 materially approximates fair value. Estimated fair value of the PIK Notes Payable approximate \$27,870,828 and \$27,488,811, respectively, at March 31, 2015 and December 31, 2014.

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:

<b>Series 2023 PIK Note derivative liability</b>	Fair Value Measurements
--	-------------------------

Edgar Filing: Applied Minerals, Inc. - Form 10-Q

	Using Inputs		
	March	December	
	31,	31,	
	2015	2014	
Market price and estimated fair value of stock	\$0.70	\$ 0.73	
Exercise price	\$1.36	\$ 1.36	
Term (years)	8.33	8.58	
Dividend yield	\$--	\$ --	
Expected volatility	60.9%	52.0	%
Risk-free interest rate	1.81%	2.08	%

<b>Series A PIK Note derivative liability</b>	Fair Value		
	Measurements		
	Using Inputs		
	March	December	
	31,	31,	
	2015	2014	
Market price and estimated fair value of stock	\$0.70	\$ 0.73	
Exercise price	\$0.92	\$ 0.92	
Term (years)	3.58	3.83	
Dividend yield	\$--	\$ --	
Expected volatility	60.9%	52.0	%
Risk-free interest rate	1.81%	2.08	%

## Table Of Contents

### 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 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.

### Revenue Recognition

Revenue includes sales of halloysite clay and, commencing in June 2013, iron oxide, 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 related contractual arrangements with the Company's customers.

### 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.

### 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 valuation allowance has been provided for the portion of the Company's net deferred tax assets for which it is more likely than not that they will not be realized.

The Company is subject to U.S. federal income tax as well as income tax of certain state jurisdictions. Federal income tax returns subsequent to 2009 are subject to examination by major tax jurisdictions. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company follows the provision of ASC Topic 740-10, "Income Taxes", relating to recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and requires increased disclosures. This guidance provides that the tax effects from an uncertain tax position 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 March 31, 2015, no amounts are included in the financial statements for unrecognized tax benefits.

#### 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.

#### Per share data

Loss per share for the three months ended March 31, 2015 and 2014, respectively, is calculated based on 95,107,112 and 94,692,696 weighted average outstanding shares of common stock.

At March 31, 2015 and 2014, respectively, the Company had outstanding options and warrants to purchase 18,626,046 and 22,083,046 shares of Company common stock, and had notes payable which were convertible into 30,086,390 and 8,106,618 shares, respectively, of the Company common stock, none of which were included in the diluted computation as their effect would be anti-dilutive.

Table Of Contents

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, 2015.

Table Of Contents

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers*. The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605 *Revenue Recognition*, and most industry-specific guidance, and creates a Topic 606 *Revenue from Contracts with Customers*.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. In April 2015, the FASB proposed a deferral of the effective date of this ASU by one year, but permits entities to adopt one year earlier if they choose. The proposal to defer the effective date is currently not approved. The Company is currently evaluating these new requirements to determine the method of implementation and any resulting estimated effects on the consolidated financial statements.

In April 2015, the FASB issued an ASU which requires that debt issuance costs be presented in the balance sheet as a direct reduction to the carrying amount of the associated debt liability, consistent with debt discounts. Currently debt issuance costs are recognized as an asset. The ASU is effective for the Company in the first quarter of 2016 and is required to be applied retrospectively. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its results of operations, financial position, and cash flows.





Table Of Contents**NOTE 5 - INCOME TAX**

Income tax provisions or benefits for interim periods are computed based on the Company's estimated annual effective tax rate. Based on the Company's historical losses and its expectation of the continuation of losses for the foreseeable future, the Company has determined that it is more likely than not that deferred tax assets will not be realized and, accordingly, has provided a full valuation allowance as of March 31, 2015 and December 31, 2014.

**NOTE 6 - NOTES PAYABLE**

Notes payable at March 31, 2015 and December 31, 2014 consist of the following:

	March 31, 2015	December 31, 2014
Note payable for mining equipment, payable \$1,339 monthly, including interest (a)	\$52,414	\$55,720
Note payable for mining equipment, payable \$950 monthly, including interest (b)	11,579	14,057
Note payable for mining equipment, payable \$6,060 monthly, including interest (c)	--	6,033
Note payable for lab equipment, payable \$9,122 monthly, including interest (d)	----	18,246
Note payable for mine site vehicle, payable \$628 monthly (e)	18,851	20,736
Note payable to an insurance company, payable \$21,531 monthly, including interest (f)	85,422	149,036
Note payable to an insurance company, payable \$6,094 monthly, including interest (g)	24,215	42,211
	192,481	306,039
Less: Current Portion	(142,417)	(246,894)
<b>Notes Payable, Long-Term Portion</b>	<b>\$50,064</b>	<b>\$59,145</b>

On October 31, 2014, the Company purchased mining equipment for \$57,900 by issuing a note with an interest rate (a) 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.

On April 17, 2012, the Company purchased mining equipment for \$40,565 by issuing a note with an effective (b) interest rate of 11.279%. The note is collateralized by the mining equipment with payments of \$950 for 48 months, which started on May 1, 2012.

On July 23, 2012, the Company purchased mining equipment for \$169,500 by issuing a note with an interest rate (c) of 5.5%. The note is collateralized by the mining equipment with payments of \$6,060 for 30 months, which started on August 25, 2012.

(d)

Edgar Filing: Applied Minerals, Inc. - Form 10-Q

On April 16, 2014, the Company purchased lab equipment for \$109,493 by depositing and issuing a non-interest bearing note in the amount of \$91,229. The note is collateralized by the lab equipment with payments of \$9,122 for ten months, which started in May 2014.

On September 20, 2012, the Company purchased a vehicle for the mine site for \$37,701 by issuing a non-interest (e) bearing note. The note is collateralized by the vehicle with payments of \$628 for 60 months, which started on October 20, 2012.

(f) The Company signed a note payable with an insurance company dated October 31, 2014 for directors' and officers' insurance, due in monthly installments, including interest at 3.15%. The note will mature on July 2015.

(g) The Company signed a note payable with an insurance company dated October 31, 2014 for liability insurance, due in monthly installments, including interest at 3.15%. The note will mature on July 2015.

Table Of Contents

The following is a schedule of the principal maturities on these notes for the next four years:

April 2015 – March 2016	\$142,417
April 2016 – March 2017	21,929
April 2017 – March 2018	18,925
April 2018 – March 2019	9,210
<b>Total Notes Payable</b>	<b>\$192,481</b>

During the three months ended March 31, 2015 and 2014, the Company's interest payments totaled \$4,178 and \$3,745, respectively.

**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 and 2014, with key terms highlighted in the table below:

<b>Key Terms</b>	<b>Series 2023 Notes</b>	<b>Series A Notes</b>
Issuance Date	August 5, 2013	November 3, 2014
Cash Received	\$ 10,500,000	\$ 12,500,000
Principal (Initial Liability)	\$ 10,500,000	\$ 19,848,486
Original Issue Discount (OID)	N/A	\$ 7,348,486
Maturity (Term)	10 years, but convertible after 1 year based on the market price of the Company's stock	4 years, but may range between 2 years to the full maturity of the Series 2023 Notes, depending on whether a Specified Event occurs and/or an Extension

		Option is elected (see below for further details)
		\$0.92 at inception, adjusted downward based on antidilution provisions;
Exercise Price	\$1.40 at inception, adjusted downward based on antidilution provisions/downround protection	also may be reduced by \$0.10 if Extension Option is elected (see below)
		10% per annum, due semiannually, may be reduced to 1% if Specified Event (see below) occurs
Stated Interest	10% per annum, due semiannually	\$9,212,285 established at inception due to existence of antidilution provisions; revalued every quarter using Monte Carlo model
Derivative Liability	\$2,055,000 established at inception due to existence of antidilution provisions; revalued every quarter using Monte Carlo model	established at inception due to existence of antidilution provisions; revalued every quarter using Monte Carlo model

As of 03/31/2015, the liability components of the PIK Notes on the Company's balance sheet are listed in the following table:

(in \$\$)	Series 2023 Notes	Series A Notes	Total
PIK Note Payable, Gross	12,155,063	19,848,486	32,003,549
Less: Discount	(1,944,922)	(16,250,358)	(18,195,280)
PIK Note Payable, Net	10,210,141	3,598,128	13,808,269

PIK Note Derivative Liability 554,128 9,600,625 10,154,753

As of 12/31/2014, the liability components of the PIK Notes on the Company's balance sheet are listed in the following table:

(in \$\$)	<b>Series 2023 Notes</b>	<b>Series A Notes</b>	<b>Total</b>
PIK Note Payable, Gross	11,576,250	19,848,486	31,424,736
Less: Discount	(1,949,555)	(16,450,742)	(18,400,297)
PIK Note Payable, Net	9,626,695	3,397,744	13,024,439
PIK Note Derivative Liability	478,149	9,557,476	10,035,625

Table Of Contents

Series A Notes

On November 3, 2014 (“Issue Date”), the Company issued, in a private placement pursuant to investment agreements, \$19,848,486 principal amount of 10% PIK-Election Convertible Notes due 2018 ("Series A Notes") in exchange for \$12,500,000 in cash and the cancellation of previously-issued warrants held by one investor.

Below are key terms of the Series A Notes:

Maturity- November 3, 2018, provided that the Stated Maturity Date may be extended to November 3, 2019 at the option of the Company (the “Extension Option”) if (i) the Company has delivered written notice of its exercise of the Extension Option to the Holder not more than ninety (90) nor less than thirty (30) days prior to November 3, 2018 and (ii) the Company has delivered a certificate, dated as of November 3, 2018, certifying that no Default or Event of Default has occurred and is continuing; provided, further that the Stated Maturity Date shall be extended to the maturity date of the Series 2023 Notes or any Replacement Financing, as applicable, upon the occurrence of a Specified Event (“Specified Extension”).

Exercise Price- initially \$0.92 per share and will be (i) adjusted from time to time pursuant to antidilution provisions and (ii) reduced by \$0.10 per share if the Company elects to exercise its Extension Option.

Stated Interest: 10% payable semiannually in arrears, provided that the interest rate shall be reduced to 1% per annum on the principal amount of the Note upon the occurrence of the Specified Event, as defined below.

Specified Event- means the event that may occur after the second anniversary of the Issuer Date if: (i) any amounts under the Series 2023 Notes or any Replacement Financing are outstanding, (ii) the VWAP for the preceding 30 consecutive Trading Days as determined by the Board of Directors of the Issuer in good faith is in excess of the Exercise Price, (iii) the closing Market Price of the Common Stock is in excess of the Exercise Price on the date immediately preceding the date on which the Specified Event occurs, (iv) no Default or Event of Default has occurred and is continuing and (v) the Issuer has delivered a certificate to each holder of Series A Notes certifying that the conditions set forth in clauses (i) through (iv) above have been met.

Extension Option- If stock price is lower than current exercise price (\$0.92) prior to the stated maturity (November 3, 2018), then the Company can elect an Extension Option, whereby the maturity is extended by one year (see Maturity definition), but with a reduction in exercise price by \$0.10.

Liquidated Damages- The company is required to pay the noteholders 1% of the principal amount of the Series A Notes if a Registration statement is not filed and effective within 90 days of the inception date (and further damages for every 30 days thereafter). The Company has accrued \$595,455 as Other Expense as of March 31, 2015 due to a delay in such filing.

The number of shares issuable under the Notes may be affected by the antidilution provisions of the Notes. The antidilution provisions adjust the Exercise Price of the Notes in the event of stock dividends and splits, issuance below the market price of the Common Stock, issuances below the conversion price of the Notes, pro rata distribution of assets, rights plans, tender offers, and exchange offers.

These Series A Notes were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. In addition to the customary antidilution provisions the notes contain a down-round provision whereby the conversion price would be adjusted downward in the event that additional shares of the Company's common stock or securities exercisable, convertible or exchangeable for the Company's common stock were issued for cash consideration (e.g. a capital raise) at a price less than the conversion price. Therefore, the estimated fair value of the conversion feature of \$9,212,285 (based on observable inputs using a Monte Carlo model) was bifurcated from the Series A Notes and accounted for as a separate derivative liability, which resulted in a corresponding amount of debt discount on the Series A Notes. In addition, an additional debt discount of \$7,348,486 was recorded as a result of the difference between the \$12,500,000 of cash received and the \$19,848,486 of principal on the Series A Notes. This combined debt discount of \$16,560,771 is being amortized using the effective interest method over the 4-year term of the Notes as Interest Expense, while the PIK Note Derivative is carried at fair value (using a Monte Carlo model) until the Notes are converted or otherwise extinguished. Any changes in fair value are recognized in earnings.

At March 31, 2015, the fair value of the Series A PIK Note Derivative was estimated to be \$9,600,625. In addition, the Company amortized \$200,384 of debt discount relating to the Series A PIK Notes Payable, increasing the Series A PIK Notes Payable carrying value to \$3,598,128 as of March 31, 2015.

Table Of Contents

Series 2023 Notes

In August 2013, the Company received \$10,500,000 of financing through the private placement of 10% mandatory convertible Notes due 2023 ("Series 2023 Notes"). The principal amount of the Notes is due on maturity. The Company can elect to pay semi-annual interest on the Series 2023 Notes with additional PIK Notes containing the same terms as the Series 2023 Notes, except interest will accrue from issuance of such notes. The Company can also elect to pay interest in cash. In February 2014, August 2014, and February 2015 the Company issued \$525,000, \$551,250, and \$578,813, respectively, in additional PIK Notes to the holders to pay the semi-annual interest.

The Series 2023 Notes originally converted into the Company's common stock at a conversion price of \$1.40 per share, which is subject to anti-dilution adjustments; these antidilution adjustments reduced the conversion price to \$1.36 after the issuance of the Series A Notes. As of issuance, principal amount of the Series 2023 Notes were convertible into 7,500,000 shares of the common stock and into 7,720,588 shares after the issuance of the Series A Notes. The holders may convert the Series 2023 Notes at any time. The Series 2023 Notes are mandatorily convertible after one year when the weighted average trading price of a share of the common stock for the preceding ten trading days is in excess of the conversion price. The Series 2023 Notes contain customary representations and warranties and several covenants. The proceeds are being used for general corporate purposes. No broker was used and no commission was paid in connection with the sale of the Series 2023 Notes. As of March 31, 2015, the Company was in compliance with the covenants.

These Series 2023 Notes were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. In addition to the customary anti-dilution provisions the notes contain a down-round provision whereby the conversion price would be adjusted downward in the event that additional shares of the Company's common stock or securities exercisable, convertible or exchangeable for the Company's common stock were issued for cash consideration (e.g. a capital raise) at a price less than the conversion price. Therefore, the estimated fair value of the conversion feature of \$2,055,000 (based on observable inputs using a Monte Carlo model) was bifurcated from the Series 2023 Notes and accounted for as a separate derivative liability, which resulted in a corresponding amount of debt discount on the Series 2023 Notes. The debt discount is being amortized using the effective interest method over the 10-year term of the Series 2023 Notes as Interest Expense, while the PIK Note Derivative is carried at fair value (using a Monte Carlo model) until the Series 2023 Notes are converted or otherwise extinguished. Any changes in fair value are recognized in earnings.

At March 31, 2015, the fair value of the PIK Note Derivative was estimated to be \$554,128, which includes the value of the additional PIK Notes issued in February 2014, August 2014, and February 2015, for the semi-annual interest payments due. Total gain from the revaluation of the original PIK Notes derivative was \$49,593 for the first quarter of 2015. In addition, during the first quarter of 2015, the Company recorded \$26,387 of additional debt discount from the February 2015 issuance, and also amortized \$31,020 of debt discount relating to the Series 2023 PIK Notes Payable, resulting in a total debt discount of \$1,944,922 as of March 31, 2015, and increasing the Series 2023 PIK Notes Payable carrying value to \$10,210,141 as of March 31, 2015.



## NOTE 8 - STOCKHOLDERS' EQUITY

### Preferred Stock

The Company is authorized to issue 10,000,000 shares of noncumulative, non-voting, nonconvertible preferred stock, \$0.001 par value per share. At March 31, 2015 and December 31, 2014, no shares of preferred stock were outstanding.

### Common Stock

On November 20, 2012, stockholders of the Company approved to increase the authorized shares of common stock from 120,000,000 to 200,000,000 shares, \$0.001 par value per share. At March 31, 2015 and December 31, 2014, 95,450,047 and 95,054,552 shares were issued and outstanding, respectively.

During the three months ended March 31, 2015, the Company issued a total of 145,495 shares of common stock valued at \$107,251 to directors and consultants as payments of fees.

During the three months ended March 31, 2015, the Company issued a total of 250,000 shares of restricted stock valued at \$165,000 to directors as part of the annual grant process. These shares vest 50% at the first anniversary of the grant date and 50% at the second anniversary of the grant date and will not be counted in the basic earnings per share calculation until they vest.

Table Of Contents**NOTE 9 - OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK**Derivative Instruments - Warrants

The Company issued 5,000,000 warrants (“Samlyn warrants”) in connection with the December 22, 2011 private placement of 10,000,000 shares of common stock. The strike price of these warrants was \$2.00 per share at the date of grant. These warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. In addition to the customary antidilution provisions the notes contained a down-round provision whereby the exercise price would be adjusted downward in the event that additional shares of the Company's common stock or securities exercisable, convertible or exchangeable for the Company's common stock were issued at a price less than the exercise price. Therefore, the fair value of these warrants (based on observable inputs using a Monte Carlo model) was recorded as a liability in the balance sheet until they are exercised or expire or are otherwise extinguished. During the first quarter of 2013, the Company issued 3,756,757 shares of its common stock for gross proceeds of \$5,560,000, which triggered a down-round adjustment of \$0.03 from \$2.00 to \$1.97 in the strike price of the Samlyn warrants at that time. As discussed in Note 7, during August 2013, the Company issued \$10,500,000 of 10% mandatorily convertible Series 2023 PIK Notes in a private placement, which triggered a down-round adjustment of \$0.04 from \$1.97 to \$1.93 in the strike price of the Samlyn warrants.

On November 3, 2014, the Company cancelled the warrant arrangement, resulting in the fair value of the warrant at such date of \$120,000 being credited to equity. During the three months ended March 31, 2014, the Company recognized \$114,000 of Other Income (Expense) resulting from the changes in the fair value of the warrant liability.

Outstanding Stock Warrants

A summary of the status of the warrants outstanding and exercisable at March 31, 2015 is presented below:

Exercise Price	Number Outstanding	Warrants Outstanding and Exercisable	
		Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
\$ 0.75	139,340	0.50	\$ 0.75
\$ 0.78	213,402	0.84	\$ 0.78
\$ 0.80	124,481	0.75	\$ 0.80

\$ 1.00	180,000	0.56	\$ 1.00
\$ 1.15	461,340	6.08	\$ 1.15
\$ 2.00	54,367	1.34	\$ 2.00
	1,172,930	2.83	\$ 1.01

No warrants were issued during 2014 or the first quarter of 2015. The intrinsic value of the outstanding warrants at March 31, 2014 was \$0.

### Outstanding Stock Options

On November 20, 2012, the shareholders of the Company approved the adoption of the Applied Minerals, Inc. 2012 Long-Term Incentive Plan ("LTIP") and the Short-Term Incentive Plan ("STIP") and the performance criteria used in setting performance goals for awards intended to be performance-based. Under the LTIP, 8,900,000 shares are authorized for issuance. The STIP does not refer to a particular number of shares under the LTIP, but would use the shares authorized in the LTIP for issuance under the STIP. The CEO, the CFO, and named executive officers, and directors, among others are eligible to participate in the LTIP and STIP. Prior to the adoption of the LTIP and STIP, stock options were granted under individual arrangements between the Company and the grantees, and approved by the Board of Directors.

The fair value of each of the Company's stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted in the table below. Expected volatility is based on an average of historical volatility of the Company's common stock. The risk-free interest rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury Bond on the date the award is granted with a maturity equal to the expected term of the award.

The significant assumptions relating to the valuation of the Company's options issued for the three months ended March 31, 2015 and 2014 were as follows on a weighted average basis:

	2015	2014
Dividend Yield	0 %	0 %
Expected Life (years)	5.6	5.2
Expected Volatility	51 %	58 %
Risk Free Interest Rate	1.47 %	1.60 %

Table Of Contents

A summary of the status and changes of the options granted under stock option plans and other agreements for the first quarter of 2015 is as follows:

	March 31, 2015	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	17,053,116	\$ 1.02
Issued	400,000	0.68
Exercised	--	--
Forfeited	--	--
Outstanding at end of period	17,453,116	\$ 1.01

During the three months ended March 31, 2015, the Company granted 400,000 options to purchase the Company's common stock with a weighted average exercise price of \$0.67 and the following vesting schedule.

## Vesting Information

Shares	Frequency	Begin Date	End Date
200,000	Quarterly	03/31/2015	12/31/2015
200,000	Annually	02/05/2016	02/05/2018

A summary of the status of the options outstanding at March 31, 2015 is presented below:

Options Outstanding		Options Exercisable		
Number	Weighted	Weighted	Number	Weighted
	Average			
Outstanding	Remaining	Exercise	Exercisable	Exercise
	Contractual	Price		Price
	Life			
	(years)			
200,000	9.88	\$ 0.66	50,000	\$ 0.66
200,000	9.88	\$ 0.68	--	\$ 0.68
7,358,277	3.69	\$ 0.70	7,358,277	\$ 0.70

Edgar Filing: Applied Minerals, Inc. - Form 10-Q

3,405,134	6.44	\$ 0.83	3,405,134	\$ 0.83
975,000	9.20	\$ 0.84	541,667	\$ 0.84
60,000	1.25	\$ 1.00	60,000	\$ 1.00
300,000	8.39	\$ 1.10	100,000	\$ 1.10
300,000	8.24	\$ 1.15	158,333	\$ 1.15
100,000	2.84	\$ 1.24	100,000	\$ 1.24
115,000	5.99	\$ 1.35	115,000	\$ 1.35
125,000	2.84	\$ 1.45	125,000	\$ 1.45
330,000	6.70	\$ 1.55	321,667	\$ 1.55
7,645	2.84	\$ 1.58	7,645	\$ 1.58
3,077,060	7.65	\$ 1.66	3,077,060	\$ 1.66
900,000	6.39	\$ 1.90	900,000	\$ 1.90
17,453,116	5.72	\$ 1.01	16,319,783	\$ 1.02

The weighted-average grant-date fair value of options granted during the first quarter of 2015 was \$0.31.

Compensation expense of \$99,938 and \$214,850 has been recognized for the vested options for the three months ended March 31, 2015 and 2014, respectively. The aggregate intrinsic value of the outstanding options at March 31, 2015 was \$12,000. At March 31, 2015, \$499,908 of unamortized compensation expense for unvested options is expected to be recognized over the next 1.77 years on a weighted average basis.

Table Of Contents**NOTE 10 - COMMITMENTS AND CONTINGENCIES****Commitments**

The following table summarizes our contractual obligations as of March 31, 2015 that require us to make future cash payments:

	Payment due by period		
	Total	< 1 year	1 - 3 years
<b>Contractual Obligations:</b>			
Rent obligations	\$271,796	\$153,615	\$118,181
<b>Total</b>	<b>\$271,796</b>	<b>\$153,615</b>	<b>\$118,181</b>

**Contingencies**

The Company was named as the defendant in a lawsuit filed on April 18, 2014 in state District court in Salt Lake City, Utah. The plaintiff is Tekko Enterprises, Inc., which was hired in 2012 as project manager for the construction of a processing plant at the Company's Dragon Mine property and terminated in 2013 before the completion of the plant. The complaint seeks damages of \$346,000, unpaid amounts that the plaintiff claims it is entitled to under the project management agreement and two purchase orders. The Company intends to vigorously defend against the claims and to counterclaim.

In accordance with ASC Topic 450, when applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. In addition to the matters described herein, we may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, could have a material adverse effect on our financial condition, cash flows or results of operations.

Table Of Contents

**ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-looking Statements**

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on our current expectations, assumptions, estimates and projections about our business and our industry. Words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," and other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements.

**Overview**

Applied Minerals, Inc. (the "Company" or "we" or "us") is focused primarily on (i) the development and marketing of our halloysite clay-based DRAGONITE™ line of products for use to improve the performance of end-products in application markets such as flame retardant additives for plastics, nucleation, thermosets and adhesives, reinforcement, molecular sieves and catalysts, ceramics, binders, cosmetics, controlled release carriers and environmental remediation and (ii) the development and marketing of our AMIRON™ line of iron oxide products for pigmentary and technical applications.

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 develop its halloysite resource for advanced, high-value applications. We purchased 100% of the property in 2005.

Halloysite is an aluminosilicate clay that possesses a tubular morphology with a hollow lumen (pore). Traditionally, halloysite has been used to manufacture porcelain, bone china and catalysts used in the petroleum cracking process. A significant amount of academic and industrial research has been performed on the commercial uses of halloysite clay beyond porcelain products and ceramic catalysts. This research has identified a wide array of application areas in which the unique morphology of halloysite can be utilized to either enhance the performance of existing applications or create new high-performance ones. Since 2009, management has been primarily focused on developing

halloysite-based products for advanced applications, such as, but not limited to, reinforcement additives for polymer composites, flame retardant additives for polymers, controlled release carriers for paints and coatings, environmental remediation media, and carriers of agricultural agents. The clays used in these advanced applications sell for significantly higher prices than those used in more traditional applications. Nanoclays have been used as additives to develop high performance plastic composites. These nanoclays provide functionality to polymer matrices that cannot be replicated using traditional fillers. Nanoclays, such as treated montmorillonite, sell for up to \$5,000 per ton due, in large part, to the cost associated with exfoliating the clay so it may be properly dispersed within a polymer matrix. Halloysite has been shown to be as effective a polymer additive as nanoclay without requiring a costly exfoliation to disperse it within a polymer matrix. The Company has and continues to utilize a number of employees and consultants to research and develop the use of halloysite for advanced applications.

In addition to the development of its halloysite resource, management has also developed a line of iron oxide-based products for the pigmentary and technical markets. The Dragon Mine has a resource of 3.3 million tons of natural iron oxide mineralized material, which is comprised primarily of goethite and hematite. Initially, the resource was considered to be utilizable as only an input of the steel-manufacturing process but, upon additional analysis, the iron resource was found to be a high-quality natural iron oxide due to its high Fe<sub>2</sub>O<sub>3</sub> content, exceptional chemical purity, good dispersability, good tinting strength and color saturation, low color variation, and low content of heavy metals. High-quality iron oxides have commercial uses in a number of higher value applications such as the aforementioned pigmentary and technical markets. The Company's AMIRON product line includes semi-transparent and opaque pigments for the construction, concrete, paints and coatings, and plastics and rubber industries. AMIRON's technical oxides, due to their particularly high surface area of 25 m<sup>2</sup>/g – 125 m<sup>2</sup>/g and reactivity, can be used as the media for the removal of toxins from waste and drinking water, as a catalyst for desulfurization, and a foundry sand additive. The Company currently has 24,229 tons of mined iron ore in stockpiles on the surface of the mine property.

The Company has carried out an extensive drilling program to characterize the mineralized material at the Dragon Mine. In addition, in January 2014, the Company commissioned a mineral processing plant with a capacity of up to 45,000 tons per annum for certain applications. Currently, this facility is dedicated to the iron oxide resource except for occasional processing of halloysite. Additionally, the Company has another processing facility with a capacity of 5,000 – 10,000 tons per annum that is dedicated to its halloysite resource.



Table Of Contents

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

***BUSINESS ACTIVITY – FIRST QUARTER ENDED MARCH 31, 2015***

Below are some business activity highlights for the Company's first fiscal quarter.

***Technical Ceramics and Porcelain***

During the quarter the Company continued to supply DRAGONITE to a well-known producer of ceramic formulations, which uses it as a binder for high-value ceramic tiles. During the quarter the Company's DRAGONITE product drew additional interest from a number of potential customers within the ceramic formulations and products industries. We are focused on converting these opportunities into revenue.

A large manufacturer of sanitary ware products has carried out a product development scale-up of an application that utilizes DRAGONITE as an additive that both improves the green strength of the ceramic body and reduces the manufacturing time of the ceramic-based product. The Company continues to focus on the conversion of this opportunity. Management is marketing this functionality of its DRAGONITE to the two other leading global sanitary ware producers.

Sales agents continue to introduce the Company's DRAGONITE to potential customers focused on ceramic applications. The purity and physical characteristics of the Dragon Mine's halloysite clay continue to attract attention from the market.

***Plastics, Adhesives and Coatings***

Management continues to market its DRAGONITE HP as a nucleating agent additive to companies with large injection molding operations, promoting the decrease in cycle time that can be achieved from using the additive. The Company was able to secure a number of customer trials in the quarter and plans to secure additional trials in the future. Only DRAGONITE HP and one other product, which sells for \$30,000 per ton, can nucleate polyethylene. Currently, a very small amount of the 50 million tons of polyethylene produced annually is nucleated, which presents a large opportunity for the Company's DRAGONITE product. The Company also sells DRAGONITE as a nucleating agent for polypropylene.

Beginning in 2015, a customer that produces plastic lawn and garden products decided to outsource the molding of one of its two products utilizing DRAGONITE-HP to an injection molding contractor. As part of this transition, the injection molding contractor was introduced DRAGONITE-HP. After seeing the benefits of DRAGONITE-HP in the products produced for the lawn and garden customer, the contractor communicated to the Company its intention to utilize DRAGONITE-HP for certain other of its customers. During the first quarter of 2015, this customer ordered and received 10 tons of DRAGONITE-HP.

A large plastic molders located in India has tested DRAGONITE for cycle time reduction of thermoformed foam. After receiving encouraging initial results, the customer purchased additional DRAGONITE during the quarter to be used in a scale-up trial.

The Company continued to receive orders from a leading global producer of structural acrylic adhesives, which launched its next generation of structural acrylic products containing our DRAGONITE XR product. The volumes sold for this new acrylic adhesive product were small this quarter but demand for this new product is expected to grow in 2015, which could lead to an increase in the volume of DRAGONITE sold for this application. Additionally, this manufacturer is developing a number of new products utilizing DRAGONITE as an additive.

Table Of Contents

A large manufacturer of automotive tires has tested DRAGONITE for the reinforcement of rubber. During the latter half of 2014, the Company shipped DRAGONITE to the tire manufacturer to be used in a scale-up trial. The trial is scheduled to complete sometime during the first half of 2015.

During the quarter the Company secured an additional product trial with a leading producer of engineered wire and cable. This manufacturer is utilizing DRAGONITE to achieve enhanced flame retardancy within a polymer used for cable jackets. We expect the trial to take place in the second or third quarter of 2015. The Company is pursuing similar opportunities with other large wire and cable manufacturers.

Mitsui Plastics continues to market DRAGONITE as an additive for reinforcement, cycle time reduction, and flame retardancy. Two customers, an adhesives manufacturer and a wire-and-cable manufacturer, experienced positive testing results using DRAGONITE for reinforcement and as a dispersant for certain flame retardant additives, respectively. It is expected that a product, utilizing DRAGONITE for reinforcement, is to be commercialized in 2016.

During 2014 one of the world's largest manufacturers of building products developed a flame retardant coating application utilizing DRAGONITE. The product has been commercialized and small amounts are being sold, resulting in a small amount of DRAGONITE being ordered this quarter. Volumes are expected to grow once this customer completes the required industry registration process for this product.

During the quarter the Company delivered 20 tons of DRAGONITE to the Lorama Group, Inc. ("Lorama") that had been ordered during the fourth quarter of 2014. Lorama continues to market DRAGONITE to potential customers as a high value additive for flame retardant paints and coatings as well as for the UV curing of coatings.

Lorama introduced DRAGONITE to one of the largest wood coatings manufacturers in South America, which has utilized it in a flame retardant formulation for wood coatings. The product has been tested and meets industry requirements. The customer will run a plant trial in early 2015. If the trial is successful, the Company expects to realize sales of DRAGONITE to this customer during 2015.

In the second quarter, a distributor located in Asia approached the Company about distributing DRAGONITE in Asia. After evaluating the material, the distributor purchased an initial order of 10 tons of product.

*Catalysts and Molecular Sieves*

A high quality manufacturer of molecular sieves commenced scale-up trials using DRAGONITE as a binder for a catalyst product. A production trial is scheduled for early 2015. This potential customer has communicated to the Company that, if successful, it will commercialize this product in the latter half of 2015 or in 2016.

A global supplier of molecular sieves performed a successful bench-scale trial using DRAGONITE to manufacture a synthetic zeolite. Approximately 10 metric tons were shipped in October to conduct a production scale-up trial. If successful sales of DRAGONITE to this customer could start sometime during 2015.

Table Of Contents

*Cosmetics*

During the quarter the Company signed a term sheet to form a joint venture with a leading developer and retailer of cosmetic products. The joint venture will own and market a brand of cosmetic products utilizing the unique characteristics of DRAGONITE-PUREWHITE. A significant amount of work related to the development and branding of these products has occurred over the last 18 months. The Company will own a significant equity stake in the joint venture. In late April 2015 the Company and its potential partner began drafting the joint venture agreement document. The Company expects the joint venture agreement to be executed sometime in the latter half of 2015.

*Iron Oxides*

*Pigmentary*

During the quarter the Company delivered 20 tons of AMIRON™ to Lorama that had been ordered in the fourth quarter of 2014 for pigment applications. Lorama is currently acting as a customer and a non-exclusive distributor for the AMIRON line of iron oxide pigments. Lorama is aggressively introducing AMIRON to its paints and coatings customers located in Europe, Asia and South America and North America. These customers have indicated strong interest in the product and Lorama's marketing efforts resulted in a number of scale-up trials conducted by potential customers.

A leading producer of mulch colorants began developing a number of products using AMIRON, focusing, in part, on developing a range of natural colors that synthetic pigments cannot provide. This producer is also looking to use AMIRON as an extender for its current line of colorants. Production scale-ups are expected for 2015. Management continues to market its AMIRON to other mulch colorant producers.

*Technical*

During the quarter a division of a large oilfield services provider converted 20 tons of AMIRON it previously purchased to its final product to be utilized in final field trials as the active media in a scrubber to remove hydrogen sulfide from flue gas. If these field tests prove successful, this potential customer has communicated to the Company that it will commercialize this desulphurization product in 2015.

A large international producer of foundry molding additives validated the efficacy of AMIRON for use as a foundry sand additive for iron casting. This potential customer has approved AMIRON for iron casting. Additionally, product scale-up trials are being carried out by this potential customer for AMIRON as a foundry sand additive for steel

casting. Sales of AMIRON for iron casting are expected in 2015.

The Company, in conjunction with a U.S. government agency, is developing an iron oxide-based oxygen carrier to be used as part of the production of clean energy.

Table Of Contents

*Other*

During the quarter the Company engaged the sales and advisory services of a former senior-level executive who focused on product innovation at one of the world's largest consumer products companies. This individual has begun introducing the unique controlled-release functionality of DRAGONITE to companies within the consumer products space. DRAGONITE is capable of being loaded with an array of active agents and can deliver these agents over an extended time horizon. This functionality has already garnered interest from manufacturers of personal care, household cleaning and detergent products as well as from producers of fragrances and flavors used in consumer products.

*Critical Accounting Policies and Estimates*

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). In connection with the preparation of our consolidated financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates, and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with US GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

The following accounting policies have been identified by management as policies critical to the Company's financial reporting:

Exploration-Stage Company

Effective January 1, 2009, due to the shutdown of our contract mining business, we were, and still are, classified as an exploration company as the existence of proven or probable reserves has 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 condensed consolidated financial statements, the warrant and PIK note derivative liability, stock compensation and impairment of long-lived assets 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 term 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.

### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. 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

During the fourth quarter of 2015, the Company started using a five-year depreciation schedule with respect to its new processing plant that was commissioned in 2014. The five-year depreciation schedule is a change from the 40 years



utilized for the building and 7 years utilized for the equipment relating to the new processing plant in the quarterly financial statements for the quarters ended March 31, June 30 and September 30, 2014. This change in useful life resulted in \$587,427 of additional depreciation expense, which was recorded during the fourth quarter of 2014. The impact of the change in the depreciation schedule did not have a material impact on the consolidated financial statements for the three quarters previously reported on Form 10-Q.

Depreciation expense for the three months ended March 31, 2015 and 2014 totaled \$326,222 and \$108,386, respectively. The Company currently does not capitalize any amounts related to proven or probable reserves and therefore does not have any depletion expense.

Fair Value

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:

	Fair value measurement using inputs			Carrying amount	
	Level 1	Level 2	Level 3	March 31, 2015	December 31, 2014 (a)
<b>Financial instruments:</b>					
Series 2023 PIK Note Derivative			\$554,128	\$554,128	\$478,148
Series A PIK Note Derivative			\$9,600,625	\$9,600,625	\$9,557,476

The following table summarizes the activity for financial instruments at fair value using Level 3 inputs:

Balance at December 31, 2014	\$10,035,625
Issuance of additional Series 2023 PIK Note	26,387
Net unrealized gain	92,741
Balance at March 31, 2015	\$10,154,753

In the course of preparing its financial statements for the year ended December 31, 2014, the Company (a)reclassified the Series 2023 PIK note derivative to Level 3 fair value hierarchy to match with the Series A PIK note derivative since it based off of a similar model.

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, receivables, other current assets, and accounts payable and accrued expenses approximate the fair value at December 31, 2014 and 2013 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 materially approximate fair value. Estimated fair value of the PIK Notes Payable approximate \$27,870,828 and \$27,488,811, respectively, at March 31, 2015 and December 31, 2014.

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:

<b>Series 2023 PIK Note derivative liability</b>	Fair Value Measurements Using Inputs		
	March 31, 2015	December 31, 2014	
Market price and estimated fair value of stock	\$0.70	\$ 0.73	
Exercise price	\$1.36	\$ 1.36	
Term (years)	8.33	8.58	
Dividend yield	\$--	\$ --	
Expected volatility	60.9%	52.0	%
Risk-free interest rate	1.81%	2.08	%

Series A PIK Note derivative liability	Fair Value Measurements Using Inputs		
	March 31, 2015		
		December 31, 2014	
Market price and estimated fair value of stock	\$0.70	\$ 0.73	
Exercise price	\$0.92	\$ 0.92	
Term (years)	3.58	3.83	
Dividend yield	\$--	\$ --	
Expected volatility	60.9%	52.0	%
Risk-free interest rate	1.81%	2.08	%

#### 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 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.

#### Revenue Recognition

Revenue includes sales of halloysite clay and, commencing in June 2013, iron oxide, 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 related contractual arrangements with the Company's customers.

#### 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.

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 valuation allowance has been provided for the portion of the Company's net deferred tax assets for which it is more likely than not that they will not be realized.

The Company is subject to U.S. federal income tax as well as income tax of certain state jurisdictions. Federal income tax returns subsequent to 2009 are subject to examination by major tax jurisdictions. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company follows the provision of ASC Topic 740-10, "Income Taxes", relating to recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and requires increased disclosures. This guidance provides that the tax effects from an uncertain tax position 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 March 31, 2015, no amounts are included in the financial statements for unrecognized tax benefits.

#### 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.

#### Per share data

Loss per share for the three months ended March 31, 2015 and 2014, respectively, is calculated based on 95,107,112 and 94,692,696 weighted average outstanding shares of common stock.

At March 31, 2015 and 2014, respectively, the Company has outstanding options and warrants to purchase 18,626,046 and 22,083,046 shares of Company common stock, and at March 31, 2015 had notes payable which were convertible into 30,086,390 shares and 8,106,618 shares of Company common stock, none of which were included in the diluted computation as their effect would be anti-dilutive.

#### 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, 2015.

### Recent Accounting Pronouncements

On June 2014, the FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, which clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Under the ASU, an entity would not record compensation expense related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. The adoption of this ASU will be required, either on a retrospective basis or prospective basis, beginning with our Quarterly Report on Form 10-Q for the quarter ending March 31, 2016. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

In June 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) ASU 2014-10 *Development Stage Entities*. The amendments in ASU 2014-10 remove the definition of a development stage entity from Topic 915 *Development Stage Entities*, thereby removing the distinction between development stage entities and other reporting entities from US GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information in the statements of operations, cash flows, and shareholder's equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The amendments also clarify that the guidance in Topic 275, *Risks and Uncertainties*, is applicable to entities that have not commenced planned principal operations. ASU 2014-10 is effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. The Company could early adopt ASU 2014-10 for any annual reporting period or interim period for which the entity's financial statements have not yet been issued. The Company has elected to adopt this ASU effective with the Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 and its adoption resulted in the removal of inception-to-date information in the Company's financial statements.

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers*. The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605 *Revenue Recognition*, and most industry-specific guidance, and creates a Topic 606 *Revenue from Contracts with Customers*.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:



Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. In April 2015, the FASB proposed a deferral of the effective date of this ASU by one year, but permits entities to adopt one year earlier if they choose. The proposal to defer the effective date is currently not approved. The Company is currently evaluating these new requirements to determine the method of implementation and any resulting estimated effects on the consolidated financial statements.

In April 2015, the FASB issued an ASU which requires that debt issuance costs be presented in the balance sheet as a direct reduction to the carrying amount of the associated debt liability, consistent with debt discounts. Currently debt issuance costs are recognized as an asset. The ASU is effective for the Company in the first quarter of 2016 and is required to be applied retrospectively. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its results of operations, financial position, and cash flows.

Table Of Contents*Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014***Results of Operations**

The following sets forth, for the periods indicated, certain components of our operating earnings, including such data stated as percentage of revenues:

	Three Months Ended March 31,		Variance	
	2015	2014	Amount	%
<b>REVENUES</b>	\$162,747	\$11,014	\$151,733	1378%
<b>OPERATING EXPENSES:</b>				
Production costs	2,235	3,749	(1,514 )	(40 %)
Exploration costs	1,327,281	1,197,156	130,125	(11 %)
General and administrative	1,182,309	1,254,016	(71,707 )	(6 %)
Depreciation expense	326,222	108,386	217,836	201 %
<b>Total Operating Expenses</b>	<b>2,838,047</b>	<b>2,563,307</b>	<b>274,740</b>	<b>11 %</b>
<b>Operating Loss</b>	<b>(2,675,300)</b>	<b>(2,552,293)</b>	<b>(123,007 )</b>	<b>5 %</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense, net, including amortization of deferred financing cost and debt discount	(1,028,627)	(300,167 )	(728,460 )	243 %
Gain on revaluation of warrant derivative	--	725,000	(725,000 )	(100 %)
Gain (loss) on revaluation of stock awards	--	38,000	(38,000 )	(100 %)
(Loss) gain on revaluation of PIK note derivative	(92,741 )	1,792,500	(1,885,241)	(105 %)
Other income (expense)	(397,797 )	(60,265 )	(337,532 )	560 %
<b>Total Other Income (Expense)</b>	<b>(1,519,165)</b>	<b>2,195,068 )</b>	<b>(3,714,233)</b>	<b>(169 %)</b>
<b>Net Loss</b>	<b>\$(4,194,465)</b>	<b>\$(357,225 )</b>	<b>\$(3,837,240)</b>	<b>1074%</b>

Revenue generated during the three months ended March 31, 2015 was \$162,747, compared to \$11,014 of revenue generated during the same period in 2014. The increase in first quarter 2015 revenues involved various customers, including the sale to Lorama, as described in Recent Business Developments; sales of Dragonite to a ceramic formulator; and sales to customers that use Dragonite as an additive to improve the mechanical properties of a polymer and as a nucleating agent to reduce the cycle time of molded plastic composites. Quarterly revenues may be unpredictable as we are in various stages of product development and production trials with potential customers. We believe that a number of these potential customers are at various stages of the commercialization process and there are

positive indications (but no assurances) that such potential customers may commercialize the use of our halloysite and/or iron ore.

Total operating expenses for the three months ending March 31, 2015 were \$2,838,047 compared to \$2,563,307 of operating expenses incurred during the same period in 2014, an increase of \$274,740.

Exploration costs incurred during the three months ended March 31, 2015 were \$1,327,281 compared to \$1,197,156 of exploration costs incurred during the same period in 2014, an increase of \$130,125, or 11%. Our exploration costs are related to the continued exploration activities at our Dragon Mine property and the mineralogical analysis of the material mined from the property. The Company hired new mining personnel in 2014 and 2015 to facilitate the sorting and processing of our minerals. The increase in mine personnel costs, including health benefits and workers compensation expense, coupled with an increase in equipment purchases, were offset by reductions in minerals testing and an expired contract with OPF consulting for ceramics and proppants during the third quarter of 2014. The expired OPF contract, which was previously fixed, has been converted to a variable contract based on future sales leads.

General and administrative expenses incurred during the three months ended March 31, 2015 totaled \$1,182,309 compared to \$1,254,016 of expense incurred during the same period in 2014, a reduction of \$71,707 or 6%. The reduction was driven primarily by a \$114,913 decrease in noncash stock compensation expense. This was slightly offset by increased consulting expense relating to cosmetics, as discussed in Recent Business Developments.

Net Loss for the three-month period ending March 31, 2015 was \$4,194,465 compared to a loss of \$357,225 incurred during the same period in 2014, an increase of \$3,837,240 or 1074%. The increase in the Net Loss was primarily due to higher interest expense during the first quarter of 2015 relating to the issuance of PIK Notes, loss on revaluation of PIK Note derivative and PIK notes registration penalty.

Table Of Contents

**LIQUIDITY AND CAPITAL RESOURCES**

The Company has a history of recurring losses from operations and use of cash in operating activities. For the three months ended March 31, 2015, the Company's net loss was \$4,194,465 and cash used in operating activities was \$2,856,815. As of March 31, 2015, the Company had working capital of \$5,494,148, which will not be sufficient to support its current operations for the next twelve months based on its business plan without obtaining additional financing. Collectively, these factors raise substantial doubt about the Company's ability to continue as a going concern.

Besides continuing its strategic business plan on generating revenue, the Company intends to explore various strategic alternatives, including the sale of equity, debt or the disposal of certain non-core assets to raise additional capital. In November 2014, the Company raised \$12.5 million in capital financing through the issuance of PIK Notes. During 2013, the Company raised gross proceeds of \$16,060,000 pursuant to the sale of common stock and issuance of convertible PIK Notes. Management can also take steps to reduce the Company's future operating expenses as needed. However, the Company cannot provide any assurance that it will be able to raise additional capital as needed. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Cash used in operating activities in 2015 was \$2,856,815 compared to \$2,375,850 of cash used during the same period in 2014. The key difference is in the timing of certain payments made over both periods.

Cash used in investing activities during 2015 was \$-0- compared to a use of \$315,708 during the same period in 2014. The 2014 costs mainly relate to the construction of the new mill.

Cash used in financing activities during 2015 was \$113,558 compared to \$122,898 of cash used during the same period in 2014 as payment to notes payable.

Our total assets as of March 31, 2015 were \$15,153,592 compared to \$18,457,702 at December 31, 2014, or a decrease of \$3,304,110, mainly due to funding operations. Total liabilities were \$26,647,011 at March 31, 2015, compared to \$25,974,467 at December 31, 2014. The increase is mainly due to the establishment of a new PIK Note liability and related derivative resulting from the issuance of PIK Notes in November 2014 (See next section- Issuance of Convertible Debt).



Table Of Contents**ISSUANCE OF CONVERTIBLE DEBT**

The Company raised \$23 million of financing through the issuance of two series of Paid-In-Kind (“PIK”)-Election Convertible Notes in 2013 and 2014, with key terms highlighted in the table below:

<b>Key Terms</b>	<b>Series 2023 Notes</b>	<b>Series A Notes</b>
Issuance Date	August 5, 2013	November 3, 2014
Cash Received	\$ 10,500,000	\$ 12,500,000
Principal	\$ 10,500,000	\$ 19,848,486
Original Issue Discount (OID)	N/A	\$ 7,348,486
Maturity (Term)	10 years, but convertible after 1 year based on the market price of the Company’s stock	4 years, but may range between 2 years to the full maturity of the Series 2023 Notes, depending on whether a Specified Event occurs and/or an Extension Option is elected (see below for further details)
Exercise Price	\$1.40 at inception, adjusted downward based on antidilution provisions/downround protection	\$0.92 at inception, adjusted downward based on antidilution provisions; also may be reduced by \$0.10 if Extension Option is elected (see

Stated Interest	10% per annum, due semiannually	below) 10% per annum, due semiannually, may be reduced to 1% if Specified Event (see below) occurs \$9,212,285
Derivative Liability	\$2,055,000 established at inception due to existence of antidilution provisions; revalued every quarter using Monte Carlo model	established at inception due to existence of antidilution provisions; revalued every quarter using Monte Carlo model

Series A Notes

On November 3, 2014 (“Issue Date”), the Company issued, in a private placement pursuant to investment agreements, \$19,848,486 principal amount of 10% PIK-Election Convertible Notes due 2018 (“Series A Notes”) in exchange for \$12,500,000 in cash and the cancellation of previously-issued warrants held by one investor.

Table Of Contents

Below are key terms of the Series A Notes:

Maturity- November 3, 2018, provided that the Stated Maturity Date may be extended to November 3, 2019 at the option of the Company (the “Extension Option”) if (i) the Company has delivered written notice of its exercise of the Extension Option to the Holder not more than ninety (90) nor less than thirty (30) days prior to November 3, 2018 and (ii) the Company has delivered a certificate, dated as of November 3, 2018, certifying that no Default or Event of Default has occurred and is continuing; provided, further that the Stated Maturity Date shall be extended to the maturity date of the Series 2023 Notes or any Replacement Financing, as applicable, upon the occurrence of a Specified Event (“Specified Extension”).

Exercise Price- initially \$0.92 per share and will be (i) adjusted from time to time pursuant antidilution provisions and (ii) reduced by \$0.10 per share if the Company elects to exercise its Extension Option.

Stated Interest: 10% payable semiannually in arrears, provided that the interest rate shall be reduced to 1% per annum on the principal amount of the Note upon the occurrence of the Specified Event, as defined below.

Specified Event- means the event that may occur after the second anniversary of the Issuer Date if: (i) any amounts under the Series 2023 Notes or any Replacement Financing are outstanding, (ii) the VWAP for the preceding 30 consecutive Trading Days as determined by the Board of Directors of the Issuer in good faith is in excess of the Exercise Price, (iii) the closing Market Price of the Common Stock is in excess of the Exercise Price on the date immediately preceding the date on which the Specified Event occurs, (iv) no Default or Event of Default has occurred and is continuing and (v) the Issuer has delivered a certificate to each holder of Series A Notes certifying that the conditions set forth in clauses (i) through (iv) above have been met.

Extension Option- If stock price is lower than current exercise price (\$0.92) prior to the stated maturity (November 3, 2018), then the Company can elect an Extension Option, whereby the maturity is extended by one year (see Maturity definition), but with a reduction in exercise price by \$0.10.

Liquidated Damages- The company is required to pay the noteholders 1% of the principal amount of the Series A Notes if a Registration statement is not filed and effective within 90 days of the inception date (and further damages for every 30 days thereafter). The Company has accrued \$595,455 as Other Expense as of March 31, 2015 due to a delay in such filing.

The number of shares issuable under the Notes may be affected by the antidilution provisions of the Notes. The antidilution provisions adjust the Exercise Price of the Notes in the event of stock dividends and splits, issuance below the market price of the Common Stock, issuances below the conversion price of the Notes, pro rata distribution of assets, rights plans, tender offers, and exchange offers.



### Series 2023 Notes

In August 2013, the Company received \$10,500,000 of financing through the private placement of 10% mandatory convertible Notes due 2023 ("Series 2023 Notes"). The principal amount of the Notes is due on maturity. The Company can elect to pay semi-annual interest on the Series 2023 Notes with additional PIK Notes containing the same terms as the Series 2023 Notes, except interest will accrue from issuance of such notes. The Company can also elect to pay interest in cash. In February 2014 and August 2014, the Company issued \$525,000 and \$551,250, respectively, in additional PIK Notes to the holders to pay the semi-annual interest.

The Series 2023 Notes convert into the Company's common stock at a conversion price of \$1.40 per share, which is subject to anti-dilution adjustments; these antidilution adjustments reduced the conversion price to \$1.36 after the issuance of the Series A Notes. As of issuance, the Series 2023 Notes were convertible into 7,500,000 shares of the common stock. The holders may convert the Series 2023 Notes at any time. The Series 2023 Notes are mandatorily convertible after one year when the weighted average trading price of a share of the common stock for the preceding ten trading days is in excess of the conversion price. The Series 2023 Notes contain customary representations and warranties and several covenants. The proceeds are being used for general corporate purposes. No broker was used and no commission was paid in connection with the sale of the Series 2023 Notes.

### Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements between the Company and any other entity that have, or are reasonable likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

Table Of Contents

The following table summarizes our contractual obligations as of March 31, 2015 that require us to make future cash payments:

	Payment due by period		
	Total	< 1 year	1 - 3 years
<b>Contractual Obligations:</b>			
Rent obligations	\$271,796	\$153,615	\$118,181
<b>Total</b>	<b>\$271,796</b>	<b>\$153,615</b>	<b>\$118,181</b>

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We have no exposure to fluctuations in interest rates, foreign currencies, or other factors.

**ITEM 4. CONTROLS AND PROCEDURES**

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were, as of the end of the fiscal quarter covered by this quarterly report, effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated our internal controls over financial reporting to determine whether any changes occurred during the quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.



Table Of Contents

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The Company was named as the defendant in a lawsuit filed on April 18, 2014 in state district court in Salt Lake City, Utah. The plaintiff is Tekko Enterprises, Inc., which was hired in 2012 as project manager for the construction of a processing plant at the Company's Dragon Mine property and terminated in 2013 before the completion of the plant. The complaint seeks damages of \$346,000, unpaid amounts that the plaintiff claims it is entitled to under the project management agreement and two purchase orders. The Company intends to vigorously defend against the claims and to counterclaim.

In addition to the matter described above, we may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, could have a material adverse effect on our financial condition, cash flows or results of operations.

**ITEM 1A. RISK FACTORS.**

Except for the below, there were no additions or material changes to the Company's risk factors disclosed in Item 1A of Part I in the Company's 2014 Annual Report on Form 10-K.

The Company has a history of recurring losses from operations and use of cash in operating activities as it is still an exploration stage company. For the three months ended March 31, 2015, the Company's net loss was \$4,194,465 and cash used in operating activities was \$2,856,815. As of March 31, 2015, the Company had working capital of \$5,494,148, which will not be sufficient to support its current operations for the next twelve months based on its business plan without obtaining additional financing. Collectively, these factors raise substantial doubt about the Company's ability to continue as a going concern.

Besides continuing its strategic business plan on generating revenue, the Company intends to explore various strategic alternatives, including the sale of equity, debt or the disposal of certain non-core assets to raise additional capital. In November 2014, the Company raised \$12.5 million in capital financing through the issuance of PIK Notes. During 2013, the Company raised gross proceeds of \$16,060,000 pursuant to the sale of common stock and issuance of convertible PIK Notes. Management can also take steps to reduce the Company's future operating expenses as needed. However, the Company cannot provide any assurance that it will be able to raise additional capital as needed. The

condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and this Item is included in Exhibit 95 to this Form 10-Q.

**ITEM 5. OTHER INFORMATION**

None.

Table Of Contents**ITEM 6. EXHIBITS**

(a) Exhibits.

The following exhibits are included in this report:

Exhibit Number	Description of Exhibits
31.1	Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer
31.2	Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer
95	Mine Safety Disclosures
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
XBRL**	Information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.



Table Of Contents

**SIGNATURES**

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

APPLIED MINERALS, INC.

Dated: May 11, 2015 /s/ ANDRE ZEITOUN  
By: Andre Zeitoun  
Chief Executive Officer

Dated: May 11, 2015 /s/ NAT KRISHNAMURTI  
By: Nat Krishnamurti  
Chief Financial Officer