

Applied Minerals, Inc.
Form 10-Q
November 10, 2014
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 September 30, 2014

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.

YESXNO

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

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of November 1, 2014 was 95,030,371.

DOCUMENTS INCORPORATED BY REFERENCE: None.

1

Table Of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Company)

THIRD QUARTER 2014 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 September 30, 2014 (unaudited) and December 31, 2013</u> | 3 |
| <u>Condensed Consolidated Statements of Operations and Comprehensive Loss (unaudited) for the Three and Nine Months Ended September 30, 2014 and 2013</u> | 4 |
| <u>Condensed Consolidated Statements of Stockholders' Equity (Deficiency) (unaudited) for the Nine Months Ended September 30, 2014</u> | 5 |
| <u>Condensed Consolidated Statements of Cash Flows (unaudited) for the Nine Months Ended September 30, 2014 and 2013</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> | 15 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 21 |
| Item 4. <u>Controls and Procedures</u> | 21 |

PART II. OTHER INFORMATION

| | |
|----------------------------------|----|
| Item 1. <u>Legal Proceedings</u> | 22 |
|----------------------------------|----|

| | | |
|------------|--|----|
| Item 1A | <u>Risk Factors</u> | 22 |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 22 |
| Item 3. | <u>Defaults Upon Senior Securities</u> | 22 |
| Item 4. | <u>Mine Safety Disclosures</u> | 22 |
| Item 5. | <u>Other Information</u> | 22 |
| Item 6. | <u>Exhibits</u> | 23 |
| | <u>Signatures</u> | 24 |

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

(An Exploration Stage Mining Company)

CONDENSED CONSOLIDATED BALANCE SHEETS

| | September 30, 2014 (Unaudited) | December 31, 2013 |
|---|---|-------------------------|
| <u>ASSETS</u> | | |
| Current Assets | | |
| Cash and cash equivalents | \$906,480 | \$8,685,552 |
| Accounts receivable, net of \$0 allowance | 55,163 | 5,756 |
| Deposits and prepaid expenses | 64,491 | 423,472 |
| Total Current Assets | 1,026,134 | 9,114,780 |
| Property and Equipment | | |
| Land and mining property | 1,109,938 | 1,109,938 |
| Property and Equipment, net of depreciation | 6,639,521 | 4,921,611 |
| Total Property and Equipment, net | 7,749,459 | 6,031,549 |
| Other Assets | | |
| Deposits | 268,895 | 68,958 |
| Total Other Assets | 268,895 | 68,958 |
| TOTAL ASSETS | \$9,044,488 | \$15,215,287 |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$2,101,773 | \$1,580,146 |
| Stock award payable | -- | 110,000 |
| Current portion of notes payable | 97,470 | 311,165 |
| Total Current Liabilities | 2,199,243 | 2,001,311 |
| Long-Term Liabilities | | |
| Long-term portion of notes payable | 21,490 | 40,826 |
| Warrant derivative | 136,000 | 950,000 |
| PIK notes payable, net of \$1,975,346 and \$2,020,750 debt discount, respectively | 9,600,904 | 8,486,583 |
| PIK Note derivative | 529,200 | 2,250,000 |
| Total Long-Term Liabilities | 10,287,594 | 11,727,409 |

| | | |
|---|---------------------|---------------------|
| <i>Total Liabilities</i> | 12,486,837 | 13,728,720 |
| Commitments and Contingencies (Note 11) | | |
| Stockholders' Equity (Deficiency) | | |
| Preferred stock, \$0.001 par value, 10,000,000 shares authorized, noncumulative, nonvoting, nonconvertible, none issued or outstanding | -- | -- |
| Common stock, \$0.001 par value, 120,000,000 shares authorized, 95,001,899 and 94,646,013 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively | 95,002 | 94,646 |
| Additional paid-in capital | 64,254,300 | 63,213,893 |
| Accumulated deficit prior to the exploration stage | (20,009,496) | (20,009,496) |
| Accumulated deficit during the exploration stage | (47,782,155) | (41,812,476) |
| <i>Total Stockholders' Equity (Deficiency)</i> | (3,442,349) | 1,486,567 |
| <i>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</i> | \$9,044,488 | \$15,215,287 |

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 September 30, | | For the Nine Months ended September 30, | |
|--|--|-------------------|--|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| REVENUES | \$55,681 | \$6,773 | \$ 114,688 | \$44,737 |
| OPERATING EXPENSES: | | | | |
| Production costs | 17,455 | 579 | 42,771 | 18,986 |
| Exploration costs | 1,174,208 | 1,175,430 | 3,628,943 | 3,418,696 |
| General and administrative | 1,082,550 | 2,002,890 | 3,680,285 | 5,978,976 |
| Depreciation expense | 170,759 | 78,864 | 416,338 | 236,552 |
| Total Operating Expenses | 2,444,972 | 3,257,763 | 7,768,337 | 9,653,210 |
| Operating Loss | (2,389,291) | (3,250,990) | (7,653,649) | (9,608,473) |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense, net, including amortization of deferred financing cost and debt discount | (314,268) | (212,830) | (918,631) | (226,454) |
| Gain on revaluation of warrant derivative | 114,000 | 200,000 | 814,000 | 850,000 |
| Gain on revaluation of stock awards | -- | 10,000 | 110,000 | 45,000 |
| Gain(loss) on revaluation of PIK Note derivative | 11,813 | (615,000) | 1,764,938 | (615,000) |
| Other income (expense) | 996 | (279) | (86,337) | 2,052 |
| Total Other Income (Expense) | (187,459) | (618,109) | 1,683,970 | 55,598 |
| Net loss | (2,576,750) | (3,869,099) | (5,969,679) | (9,552,875) |
| Net Loss Per Share (Basic and Diluted) | \$(0.03) | \$(0.04) | \$(0.06) | (0.10) |
| Weighted Average Shares Outstanding (Basic and Diluted) | 94,985,716 | 94,508,983 | 94,847,462 | 94,205,611 |

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 (DEFICIENCY)

(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, 2013 | 94,646,013 | \$94,646 | \$63,213,893 | \$(20,009,496) | \$(41,812,476) | \$1,486,567 |
| Shares issued for directors fees and other services | 355,886 | 356 | 286,024 | -- | -- | 286,380 |
| Stock-based compensation expense for consultants and directors | -- | -- | 754,383 | -- | -- | 754,383 |
| Net Loss | -- | -- | -- | -- | (5,969,679) | (5,969,679) |
| Balance, September 30, 2014 | 95,001,899 | \$95,002 | \$64,254,300 | \$(20,009,496) | \$(47,782,155) | \$(3,442,349) |

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 Nine Months ended September 30, 2014 2013 | |
|--|---|--------------------|
| Cash Flows From Operating Activities: | | |
| Net loss | \$(5,969,679) | \$(9,552,875) |
| Adjustments to reconcile net loss to net cash used in operations | | |
| Depreciation | 416,338 | 236,552 |
| Amortization of discount – PIK Notes | 82,209 | 34,250 |
| Issuance of PIK Notes in payment of interest | 1,076,250 | -- |
| Stock issued for director fees and other services | 286,380 | 194,125 |
| Stock-based compensation expense for consultants and directors | 754,383 | 3,478,404 |
| Gain on revaluation of stock warrant derivative | (814,000) | (850,000) |
| (Gain) loss on revaluation of PIK Note derivative | (1,764,938) | 615,000 |
| Gain on revaluation of stock awards | (110,000) | (45,000) |
| Change in operating assets and liabilities: | | |
| (Increase) Decrease in: | | |
| Accounts receivable | (49,407) | 961 |
| Deposits and prepaids | 168,877 | 166,077 |
| Increase (Decrease) in: | | |
| Accounts payable and accrued liabilities | (233,231) | (515,958) |
| Net cash used in operating activities | (6,156,818) | (6,238,464) |
| Cash Flows From Investing Activities: | | |
| Purchases of property and equipment | (784,716) | (6,256) |
| Construction-in-progress | (513,278) | (1,432,420) |
| Net cash used in investing activities | (1,297,994) | (1,438,676) |
| Cash Flows From Financing Activities: | | |
| Payments on notes payable | (324,260) | (335,652) |
| Proceeds from PIK notes payable | -- | 10,500,000 |
| Proceeds from sale of common stock | -- | 5,560,000 |
| Net cash (used in) provided by financing activities | (324,260) | 15,724,348 |
| Net change in cash and cash equivalents | (7,779,072) | 8,047,208 |

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| | | |
|---|------------------|---------------------|
| Cash and cash equivalents at beginning of period | 8,685,552 | 3,356,103 |
| Cash and cash equivalents at end of period | \$906,480 | \$11,403,311 |

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 Nine Months ended September 30, | |
|---|---|----------|
| | 2014 | 2013 |
| Cash Paid For: | | |
| Interest | \$7,815 | \$18,381 |
| Income Taxes | \$1,403 | \$3,841 |
| 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 | \$-- |
| Reclassification from buildings to milling equipment | \$319,328 | \$-- |
| Prepaid insurance financed with note payable | \$-- | \$25,005 |
| Note payable for lab equipment | \$91,229 | \$-- |
| Additional large mine deposit in accounts payable | \$9,833 | \$-- |
| Reclassification of large mine deposit from short term to long term asset | \$199,936 | \$-- |

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, 2013, included in the Company's Annual Report filed on Form 10-K for such year. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the entire year. The condensed consolidated financial statements were prepared using accounting principles generally accepted in the United States of America ("GAAP"). These principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

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 as it is still an exploration stage company. For the nine months ended September 30, 2014, the Company's net loss was \$5,969,679 and cash used in operating activities was \$6,156,818. As the Company continues its commercialization efforts of halloysite clay and iron oxide, it may require additional financing to fund its current operations as it has done in the past. In November 2014, the Company raised \$12.50 million in capital financing through the issuance of PIK Notes. (See Note 12 Subsequent Event). During 2013, the Company raised gross proceeds of \$16,060,000 pursuant to the sale of common stock and issuance of convertible PIK Notes.

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. Management can also take steps to reduce the Company's future operating expenses as needed.

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.

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.

Table Of ContentsProperty 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 | 20 – 40 |
| Mining equipment | 2 – 7 |
| Office and shop furniture and equipment | 3 – 7 |
| Vehicles | 5 |

Depreciation expense for the three months ended September 30, 2014 and 2013 totaled \$170,759 and \$78,864, respectively. Depreciation expense for the nine months ended September 30, 2014 and 2013 totaled \$416,338 and \$236,552, 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 - observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 - significant unobservable inputs

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 | September | December |
| | | | | 30, 2014 | 31, 2013 |

Financial instruments:

| | | | | | |
|---------------------|--|------------|--|------------|--------------|
| Warrant derivative | | \$ 136,000 | | \$ 136,000 | \$ 950,000 |
| PIK Note derivative | | \$ 529,200 | | \$ 529,200 | \$ 2,250,000 |

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 their fair value at September 30, 2014 and December 31, 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, the carrying value of notes payable approximate fair value. Estimated fair value of the PIK Notes Payable approximates \$7,640,000 at September 30, 2014. For the Company's warrant and PIK note derivative liabilities, fair value was estimated using a Monte Carlo Model using the following assumptions:

| Warrant derivative liability | Fair Value Measurements Using Inputs | | |
|--|--------------------------------------|-------------------|---|
| | September 30, 2014 | December 31, 2013 | |
| Market price and estimated fair value of stock | \$0.72 | \$ 1.10 | |
| Exercise price | \$1.93 | \$ 1.93 | |
| Term (years) | 2.25 | 3.00 | |
| Dividend yield | -- | -- | |
| Expected volatility * | 51.5 % | 76.9 | % |
| Risk-free interest rate | 0.68 % | 0.78 | % |

| PIK Note derivative liability | Fair Value Measurements Using Inputs | | |
|--|--------------------------------------|-------------------|---|
| | September 30, 2014 | December 31, 2013 | |
| Market price and estimated fair value of stock | \$0.72 | \$ 1.10 | |
| Exercise price | \$1.40 | \$ 1.40 | |
| Term (years) | 8.92 | 9.58 | |
| Dividend yield | -- | -- | |
| Expected volatility * | 60.2 % | 76.9 | % |
| Risk-free interest rate | 2.42 % | 2.96 | % |

* During the first quarter of 2014, the Company revised its assumption for expected volatility by switching from a peer-group average volatility to the Company's three-year historical volatility in measuring the value of the derivative liabilities mentioned above. Prior to 2011, the occurrence of certain corporate events would not have made the historical volatility calculations meaningful or accurate if included. This reduction in volatility led to a reduced valuation for both the Warrant and PIK Note derivative liabilities of approximately \$118,500 and \$126,000, respectively. The remaining decrease in the valuation is attributable to the decline in stock price.

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.

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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 September 30, 2014, 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 September 30, 2014 and 2013, respectively, is calculated based on 94,985,716 and 94,508,983 weighted average outstanding shares of common stock. Loss per share for the nine months ended September 30, 2014 and 2013 respectively, is calculated based on 94,847,462 and 94,205,611 weighted average outstanding shares of common stock.

At September 30, 2014 and 2013, respectively, the Company has outstanding options and warrants to purchase 23,258,046 and 22,083,046 shares of Company common stock, and at September 30, 2014 had notes payable which were convertible into 7,500,000 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, the Company cannot reasonably estimate any reclamation or remediation liability that may occur in the future, if any.

Table Of Contents

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, ASU 2014-15 provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. Management is currently evaluating the impact of the adoption of ASU 2014-14 on our financial statement disclosures.

On June 19, 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 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 elected to adopt this ASU effective with 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 statements of operations and cash flows.

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. The Company is currently evaluating these new requirements to determine the method of implementation and any resulting estimated effects on the financial statements.

NOTE 5 - STOCK AWARD PAYABLE

The stock award payable amount of \$110,000 at December 31, 2013 relates to 100,000 shares issuable, but not issued, under a 2007 employment agreement. The Company recorded the stock grant as a liability and revalued the liability based on the quoted price of the Company's stock at the end of each period. During the second quarter of 2014, the Company received a release in writing from the former employee absolving the Company of the stock award payable and accordingly reversed the \$72,000 balance of the liability into Other Income.

NOTE 6 - 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 September 30, 2014 and December 31, 2013.

Table Of Contents**NOTE 7 - NOTES PAYABLE**

Notes payable at September 30, 2014 and December 31, 2013 consist of the following:

| | September 30, 2014 (unaudited) | December 31, 2013 |
|--|---|-------------------------|
| Note payable for mining equipment, payable \$5,556 monthly, including interest (a) | \$ 10,292 | \$42,927 |
| Note payable for mining equipment, payable \$950 monthly, including interest (b) | 16,466 | 23,302 |
| Note payable for mining equipment, payable \$6,060 monthly, including interest (c) | 23,966 | 76,313 |
| Note payable for mine site vehicle, payable \$628 monthly, including interest (d) | 22,621 | 28,276 |
| Note payable for mining equipment, payable \$5,000 monthly, including interest (e) | -- | 9,932 |
| Note payable for mining equipment, payable \$2,250 monthly, including interest (f) | -- | 8,898 |
| Note payable to an insurance company, payable \$19,139 monthly, including interest (g) | -- | 132,576 |
| Note payable to an insurance company, payable \$4,297 monthly, including interest (h) | -- | 29,767 |
| Note payable for lab equipment, payable \$9,123 monthly (i) | 45,615 | -- |
| | 118,960 | 351,991 |
| Less: Current Portion | (97,470) | (311,165) |
| Notes Payable, Long-Term Portion | \$ 21,490 | \$40,826 |

On July 7, 2011, the Company purchased mining equipment for \$198,838 by issuing a note with an implicit (a) interest rate of 9.34%. The note is collateralized by the mining equipment with payments of \$5,556 for 36 months, which started on August 15, 2011

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

On September 20, 2012, the Company purchased a vehicle for the mine site for \$37,701 by issuing a note with an (d) interest rate of 0%. The note is collateralized by the vehicle with payments of \$628 for 60 months, which started on October 20, 2012

On November 16, 2012, the Company purchased a piece of mining equipment that had been leased for \$67,960 by (e) issuing a note with an effective interest rate of 5.5%. The note is collateralized by the mining equipment and requires payments of \$3,518 for three months and then \$5,000 for twelve months

On November 16, 2012, the Company purchased a piece of mining equipment that had been leased for \$33,748 by (f) issuing a note with an effective interest rate of 5.5%. The note is collateralized by the mining equipment and requires payments of \$1,632 for five months and then \$2,250 for twelve months

(g) The Company signed a note payable with an insurance company dated October 17, 2012 for directors' and officers' insurance, due in monthly installments, including interest at 3.15%. The note matured in September 2013

and was repaid.

- (h) The Company signed a note payable with an insurance company dated October 17, 2012 for liability insurance, due in monthly installments, including interest at 4.732%. The note matured in July 2013 and was repaid.

- (i) On April 16, 2014, the Company purchased laboratory equipment for \$109,493 by depositing \$18,424 and issuing a non-interest bearing note. The note is collateralized by the lab equipment with payments of \$9,122 for ten months.

The following is a schedule of the principal maturities on these notes as of September 30, 2014:

| | |
|-------------------------------|------------------|
| October 2014 – September 2015 | \$97,470 |
| October 2015 – September 2016 | 13,950 |
| October 2016 – September 2017 | 7,540 |
| Total Notes Payable | \$118,960 |

During the three and nine months ending September 30, 2014, the Company's interest payments totaled \$1,694 and \$7,815, respectively.

NOTE 8 – CONVERTIBLE DEBT (PIK NOTES)

In August 2013, the Company received \$10,500,000 of financing through the private placement of 10% mandatory convertible Notes due 2023 ("Notes"). The principal amount of the Notes is due on maturity. The Company can elect to pay semi-annual interest on the Notes with additional PIK Notes containing the same terms as the 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 Notes convert into the Company's common stock at a conversion price of \$1.40 per share, which is subject to customary anti-dilution adjustments. As of issuance, the Notes are convertible into 7,500,000 shares of the common stock. The holders may convert the Notes at any time. The 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 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 Notes.

These 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) was bifurcated from the Notes and accounted for as a separate derivative liability, which resulted in a corresponding amount of debt discount on the Notes. The debt discount is being amortized using the effective interest method over the 10-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.

Table Of Contents

At September 30, 2014, the fair value of the PIK Note Derivative was estimated to be \$529,200, which includes the value of the additional PIK Notes issued in February and August 2014, as mentioned above. Total gain from the revaluation of the original PIK Notes was \$1,764,938 for the nine months ending September 30, 2014. In addition, during such period, the Company amortized \$82,209 of debt discount relating to the August 2013 PIK Notes Payable, increasing the PIK Notes Payable carrying value to \$9,600,904 as of September 30, 2014.

NOTE 9 - STOCKHOLDERS' EQUITY

During the nine months ended September 30, 2014, the Company issued a total of 355,886 shares of common stock valued at \$286,380 to directors and consultants as payments of fees.

NOTE 10 - 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 contain 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) 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 8, during August 2013, the Company issued \$10,500,000 of 10% mandatorily convertible PIK Notes due 2023 ("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.

During the three months ended September 30, 2014 and 2013, the Company recognized \$114,000 and \$200,000 of income, respectively, of Other Income (Expense) resulting from the changes in the fair value of the warrant liability. During the nine months ended September 30, 2014 and 2013, the Company recognized \$814,000 and \$850,000 of

income resulting from the decrease in the fair value of the warrant liability. As described in Note 4, this reduction mainly resulted from a lower stock price and a change in the volatility utilized by the Company.

Outstanding Stock Warrants

A summary of the status of the warrants outstanding and exercisable at September 30, 2014 is presented below:

| Exercise Price | Number Outstanding | Weighted Average Contractual Life |
|----------------|--------------------|-----------------------------------|
| \$ 0.75 | 139,340 | 1.00 |
| \$ 0.78 | 213,402 | 1.34 |
| \$ 0.80 | 124,481 | 1.25 |
| \$ 1.00 | 212,000 | 0.91 |
| \$ 1.15 | 461,340 | 6.58 |
| \$ 1.93 | 5,000,000 | 2.23 |
| \$ 2.00 | 54,367 | 1.84 |
| \$ 1.75 | 6,204,930 | 2.43 |

No warrants have been issued since 2011 and no warrants vested in 2013 or 2014; accordingly, no compensation expense has been recorded during 2013 and 2014. The intrinsic value of the outstanding warrants at September 30, 2014 was \$0 as the exercise prices exceeded the market price of the Company's common stock at September 30, 2014.

Excluding the 5,000,000 warrants with the down round provisions discussed above, the fair value of each of the Company's stock warrant awards is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below.

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, 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.

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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 term equal to the expected term of the award.

The significant assumptions relating to the valuation of the Company's options issued for the nine months ended September 30, 2014 and 2013 were as follows:

| | 2014 | 2013 |
|-------------------------|------------|------------|
| Dividend Yield | 0% | 0% |
| Expected Life (years) | 5-6 | 5-10 |
| Expected Volatility | 55.70% | 63.47-83% |
| Risk Free Interest Rate | 1.71-1.90% | 0.88-2.57% |

Table Of Contents

A summary of the status and changes of the options granted under stock option plans and other agreements for the nine months ended September 30, 2014 is as follows:

| | Shares | Weighted Average Exercise Price |
|-----------------------------------|------------|--|
| Outstanding at December 31, 2013 | 15,878,116 | \$ 1.03 |
| Issued | 1,175,000 | 0.84 |
| Exercised | -- | -- |
| Forfeited | -- | -- |
| Outstanding at September 30, 2014 | 17,053,116 | \$ 1.02 |

During the nine months ended September 30, 2014, the Company granted 1,175,000 options to purchase the Company's common stock with a weighted average exercise price of \$0.84. Of the 1,175,000 options granted during 2014, 200,000 options vest quarterly starting on March 31, 2014 and ending on December 31, 2014; 375,000 options granted during the second quarter immediately vested on June 9, 2014; and 600,000 options granted on June 9, 2014 vest monthly over a three-year period.

A summary of the status of the options outstanding at September 30, 2014 is presented below:

| Options Outstanding | | | Options Exercisable | |
|---------------------|---|--|---------------------|--|
| Number | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| 7,358,277 | 4.19 | \$ 0.70 | 7,358,277 | \$ 0.70 |
| 3,405,134 | 6.94 | \$ 0.83 | 3,355,134 | \$ 0.83 |
| 975,000 | 9.70 | \$ 0.84 | 441,667 | \$ 0.84 |
| 60,000 | 1.75 | \$ 1.00 | 60,000 | \$ 1.00 |
| 300,000 | 8.89 | \$ 1.10 | 100,000 | \$ 1.10 |
| 300,000 | 8.74 | \$ 1.15 | 108,333 | \$ 1.15 |
| 100,000 | 3.34 | \$ 1.24 | 100,000 | \$ 1.24 |
| 115,000 | 6.49 | \$ 1.35 | 115,000 | \$ 1.35 |
| 125,000 | 3.34 | \$ 1.45 | 125,000 | \$ 1.45 |
| 330,000 | 7.20 | \$ 1.55 | 271,667 | \$ 1.55 |

| | | | | |
|------------|------|---------|------------|---------|
| 7,645 | 3.34 | \$ 1.58 | 7,645 | \$ 1.58 |
| 3,077,060 | 8.15 | \$ 1.66 | 3,077,060 | \$ 1.66 |
| 900,000 | 6.89 | \$ 1.90 | 900,000 | \$ 1.90 |
| 17,053,116 | 6.13 | \$ 1.02 | 16,019,783 | \$ 1.02 |

At September 30, 2014, the total compensation expense of \$585,978 for unvested options is to be recognized over the next 1.95 years on a weighted average basis.

Compensation expense of \$168,315 and \$754,383 has been recognized for vesting of options for the three and nine months ended September 30, 2014, respectively. The aggregate intrinsic value of the outstanding options as September 30, 2014 was \$110,374.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Commitments

The following table summarizes our contractual obligations as of September 30, 2014 that require us to make future cash payments:

| | Payment due by period | | | | |
|---------------------------------|-----------------------|-----------|----------------|----------------|--------------|
| | Total | < 1 year | 1 - 3 years | 3 - 5 years | > 5 years |
| Contractual Obligations: | | | | | |
| Rent obligations | \$189,261 | \$151,187 | \$38,074 | -- | -- |
| Total | \$189,261 | \$151,187 | \$38,074 | -- | -- |

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

NOTE 12 – SUBSEQUENT EVENT

In November 2014, the Company announced that it received \$12.5 million of financing through the private placement of \$19.8 million principal amount of 10% Mandatorily Convertible PIK Notes due 2018 ("Notes"), with a company option to extend the maturity date to 2019. The Notes have a strike price of \$0.92 per share, but may be adjusted from time to time based on the terms of the agreement. The common shares underlying the convertible notes are subject to a Registration Rights Agreement signed contemporaneously with the convertible notes.

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 of plastic composites, 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 approximately 75 miles southwest of Salt Lake City, 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 own 100% of the property.

Halloysite is aluminosilicate clay that possesses a tubular morphology with a hollow lumen (pore). Traditionally, halloysite has been used to manufacture porcelain, bone china and catalyst-related material used in the petroleum cracking process. A significant amount of academic 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. The advanced applications include, but are not limited to, polymer composite reinforcement, flame retardant additives, controlled-release carriers, additives for paints and coatings, media for environmental remediation, and cosmetics. The Company's halloysite-based product development efforts are led by Yash Khana, Ph.D. and involve the utilization of outside consultants. The Company markets its halloysite-based line of products under the Dragonite™ trade name.

The Company currently identifies and pursues revenue opportunities for its Dragonite line of products in both the traditional and advanced application markets. We have engaged a number of individual sales consultants as well as organizations, such as Mitsui Plastics and OPF Enterprises, LLC, which are marketing our products to either the traditional or advanced application markets. The time it takes to penetrate the advanced application markets often exceeds that of the traditional markets. This longer lead time is due primarily to the fact that Dragonite is marketed as a functionally superior replacement material for many of the targeted advanced applications, often requiring significant testing on part of the potential customer before commercialization is commenced. In many instances Dragonite is being incorporated into a product as a new material (e.g. halloysite as a reinforcing filler in plastics). The testing procedures associated with new materials can be extensive and time consuming. The Company believes that achieving relatively small penetration rates of 1% - 5% in just a few advanced application markets will result in material revenue opportunities.

In January 2014, the Company launched Amiron, its line of iron oxide-based products. The high FeO₂ content, chemical purity, high surface area and dispersibility of the Company's iron oxide enable it to be used in both pigmentary and technical applications, some of which are high-value. The Company's Amiron™ iron oxide provides semi-transparent and FDA-compliant pigments that can be utilized within the construction, concrete, paints and coatings, and plastics and rubber industries. With respect to technical applications, the particularly high surface area (25 m²/g – 125 m²/g) and reactivity of Dragon Mine's iron oxide resource allows the material to act as an effective medium for the removal of toxins from waste and drinking water and as a catalyst for the desulphurization of industrial gases. Additionally, our iron oxide products have uses in applications such as cosmetics and foundry sand additives. Both the product development and marketing of Amiron are being directed by Rogerio Galante, a former 15-year veteran of Lanxess AG, the world's largest producer of iron oxide pigments. The Company has signed an LOI with The Lorama Group, Inc. ("Lorama") to market, sell, and distribute its AMIRON™ line of iron oxide-based pigments globally to the paint and coatings industry on an exclusive basis. Additionally, the Company is working with a number of potential customers with respect to the development of technical application utilizing its Amiron product line.

The Company has implemented a 45,000 tpa minerals processing plant at its Dragon Mine property dedicated to its iron oxide resource. The Company's KDS-based facility has an annual halloysite capacity of 5,000 – 10,000 tons depending on the grade produced. The Company believes it can add capacity to either facility with a minimal capital investment and also as an ability to have its resource processed using a tolling service.

Table Of Contents

Recent Business Developments

Financing

On November 4, 2014, the Company raised \$12,500,000 through the sale of 10% Convertible-Elect PIK Notes due 2018 (the “Notes”). The Notes are mandatorily convertible by the Company and their maturity can be extended if certain conditions are met.

Technical Ceramics & Porcelain

The Company has begun supplying a well-known producer of ceramic formulations. This customer utilizes Dragonite as a binder for use in high value ceramic tiles. Dragonite, among other things, provides increased strength, whiteness and translucency for certain ceramic applications.

A large manufacturer of ceramic-based kitchen and bathroom products carried out a product development scale-up of an application that utilized Dragonite as an additive to reduce manufacturing time and increase the strength of the product.

Plastics, Adhesives & Coatings

The Company has seen increased orders this year for its Dragonite HP nucleating agent to a leading producer of plastic lawn and garden equipment. Dragonite, for this customer, is being utilized primarily to (i) improve product strength and (ii) reduce structural defects and shrinkage of the molded parts, resulting in lower scrap rates. Dragonite also reduces cycle time of molded plastic components, which results in a decrease in manufacturing costs.

A leading global producer of structural acrylic adhesives has launched its next generation of structural acrylic products containing our Dragonite XR product.

The Company continues to sell Dragonite to Sigma-Aldrich, which, in turn, continues to receive interest in the material from corporate R&D departments as well as academic research organizations. These inquiries, in certain instances, have led to development projects with our Company once the initial lab sample evaluation has taken place.

Lorama has validated the performance claims of our Dragonite HP and has begun introducing it to potential customers as a high value additive for flame retardant paints & coatings as well as for the UV curing of coatings. Production-scale trials have also begun as a result of these initiatives.

Catalysts & Molecular Sieves

A leading specialty producer of catalysts & molecular sieves has completed lab and pilot testing of our Dragonite HP product for use in the production of synthetic zeolites. The Company received a 10-ton order from this customer for an initial production-scale trial.

A manufacturer of molecular sieves and chromatography gels is currently conducting a product development scale-up using Dragonite as part of a molecular sieve-type application.

Amiron Advanced Natural Iron Oxides

Pigmentary

The Company continues to move forward with Lorama with respect to formalizing a distribution agreement. During this time, Lorama has been aggressively introducing Amiron to its paints and coatings customers located in Europe, Asia and South America and North America. The performance claims of Amiron semi-transparent iron oxides for wood stains have been independently validated by, and have received interest from, certain end-users. Several production-scale trials have been scheduled to commence on a global basis.

A leading producer of mulch colorants has recently validated the performance claims of our Amiron line of products for the development of a new line of mulch colors based on our Amiron product line. Plans for a product development scale-up are in progress.

Non-Pigmentary

The Company is working with a division of a large oil & gas services company with the goal to commercialize a gas desulphurization application utilizing the Company's Amiron iron oxide. The first order for 20 tons, purchased last quarter, is being used to carry out production-scale trials and customer field-testing.

A large international producer of foundry molding additives has recently validated the performance claims of our Amiron OH technical grade iron oxide and has found that our products are showing performance advantages over the leading iron oxide product in the market. Production scale-up and customer field trials were scheduled to begin this quarter. This is an attractive market for which we believe the characteristics and purity of our Amiron product could

result in fast penetration of this market. Discussions are progressing with a potential customer regarding a joint market development agreement.

Cosmetics

The Company has been jointly developing a unique range of advanced skincare products and is in the latter stages of negotiations with a global leader in cosmetics regarding the formation of a joint venture. Several product prototypes have been formulated using our highest purity grade of Dragonite Purewhite CG Halloysite. There is no guarantee that a joint venture or commercial agreement of any kind will be formed.

Intellectual Property Development

Many patented technologies based on halloysite have been granted to third parties over the years. A number of these patents have used halloysite from the Dragon Mine. Two patents recently granted that use halloysite from the Dragon Mine are one that utilizes Dragonite to enhance the strength of a structural acrylic adhesive (US WO 2013126377 A1) and one that utilizes halloysite from the Dragon Mine to improve the performance of cement compositions used in a variety of subterranean operations such as oil & gas wells (US 20140090842 A1/WO 2014052757 A1).

The Company is engaged in product development and/or marketing activities with a number of potential customers. The opportunities mentioned above are ones that the Company believes, at the current moment, are the most likely to result in some level of sales in the foreseeable future. The realization of sales from these opportunities is, for the most part, dependent on a number of factors outside of the Company's control. These factors may delay or, in certain instances, suspend the commercialization process involving these potential customers.

Critical Accounting Policies and Estimates

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. In these financial statements, assets and liabilities involve extensive reliance on management's estimates. Actual results could differ from those estimates.

Table Of ContentsFair 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 - observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 - significant unobservable inputs

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 | September 30, 2014 | December 31, 2013 |
| Financial instruments: | | | | | |
| Warrant derivative | | \$ 136,000 | | \$ 136,000 | \$ 950,000 |
| PIK Note derivative | | \$ 529,200 | | \$ 529,200 | \$ 2,250,000 |

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, receivables, other current assets, accounts payable, and accrued expenses approximate their fair value at September 30, 2014 and December 31, 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, the carrying value of notes payable approximate fair value. Estimated fair value of the PIK Notes Payable approximates \$7,640,000 at September 30, 2014. For the Company's warrant and PIK note derivative liabilities, fair value was estimated using a Monte Carlo Model using the following assumptions:

| | |
|-------------------------------------|--|
| Warrant derivative liability | Fair Value Measurements Using Inputs |
|-------------------------------------|--|

| | September 30, 2014 | December 31, 2013 | |
|--|--------------------------|----------------------|--|
| Market price and estimated fair value of stock | \$0.72 | \$ 1.10 | |
| Exercise price | \$1.93 | \$ 1.93 | |
| Expected term (years) | 2.25 | 3.00 | |
| Dividend yield | -- | -- | |
| Expected volatility * | 51.5 % | 76.9 % | |
| Risk-free interest rate | 0.68 % | 0.78 % | |

| PIK Note derivative liability | Fair Value Measurements Using Inputs | | |
|--|--|----------------------|--|
| | September 30, 2014 | December 31, 2013 | |
| Market price and estimated fair value of stock | \$0.72 | \$ 1.10 | |
| Exercise price | \$1.40 | \$ 1.40 | |
| Expected term (years) | 8.92 | 9.58 | |
| Dividend yield | -- | -- | |
| Expected volatility * | 60.2 % | 76.90 % | |
| Risk-free interest rate | 2.42 % | 2.96 % | |

* During the first quarter of 2014, the Company revised its assumption for expected volatility by switching from a peer-group average volatility to the Company's three-year historical volatility in measuring the value of the derivative liabilities mentioned above. Prior to 2011, the occurrence of certain corporate events would not have made the historical volatility calculations meaningful or accurate if included. This reduction in volatility led to a reduced valuation for both the Warrant and PIK Note derivative liabilities of approximately \$118,500 and \$126,000, respectively. The remaining decrease in the valuation is attributable to the decline in stock price.

Impairment of Long-Lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, the Company compares the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset to its carrying amount. If this comparison indicates that there is impairment, the amount of the impairment is typically calculated using discounted expected future cash flows where observable fair values are not readily determinable.

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 are capitalized. When these properties are developed and operations commence, capitalized costs 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. For all periods through September 30, 2014, all costs associated with the Company's mines, excluding original acquisition cost, have been expensed as the Company remains an exploration stage company.

Table Of Contents

Provision for Income Taxes

We use the asset and liability method of accounting for income taxes. Deferred income taxes are provided for the temporary difference between the financial reporting basis and tax basis of our assets and liabilities. Deferred tax benefits result principally from certain tax carryover benefits and from recording certain expenses in the financial statements that are not currently deductible for tax purposes and from differences between the tax and book basis of assets and deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax liabilities result principally from deductions recorded for tax purposes in excess of that recorded in the financial statements or income for financial statement purposes in excess of the amount for tax purposes. The effect of changes in tax rates is recognized in the period the rate change is enacted.

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. With respect to equity based payments to non-employees, we determine the fair value of the stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either of (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete.

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No.2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, ASU 2014-15 provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. Management is currently evaluating the impact of the adoption of ASU 2014-14 on our financial statement disclosures.

On June 19, 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 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 elected to adopt this ASU effective with 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 statements of operations and cash flows.

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. The Company is currently evaluating these new requirements to determine the method of implementation and any resulting estimated effects on the financial statements.

Table Of Contents*Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013***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 September 30, | | Variance | |
|--|-------------------------------------|----------------------|--------------------|---------------|
| | 2014 | 2013 | Amount | % |
| REVENUES | \$55,681 | \$6,773 | \$48,908 | 722 % |
| OPERATING EXPENSES: | | | | |
| Production costs | 17,455 | 579 | 16,876 | 2915 % |
| Exploration costs | 1,174,208 | 1,175,430 | (1,222) | (0.10 %) |
| General and administrative | 1,082,550 | 2,002,890 | (920,340) | (46 %) |
| Depreciation expense | 170,759 | 78,864 | 91,895 | 117 % |
| Total Operating Expenses | 2,444,972 | 3,257,763 | (812,791) | (25 %) |
| Operating Loss | (2,389,291) | (3,250,990) | 861,699 | (27 %) |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense, net, including amortization of deferred financing cost and debt discount | (314,268) | (212,830) | (101,438) | 48 % |
| Gain on revaluation of warrant derivative | 114,000 | 200,000 | (86,000) | (43 %) |
| Gain (loss) on revaluation of stock awards | -- | 10,000 | (10,000) | (100 %) |
| Gain (loss) on revaluation of PIK note derivative | 11,813 | (615,000) | 626,813 | (102 %) |
| Other income (expense) | 996 | (279) | 1,275 | (457 %) |
| Total Other Income (Expense) | (187,459) | (618,109) | 430,650 | (70 %) |
| Net Loss | \$(2,576,750) | \$(3,869,099) | \$1,292,349 | (33 %) |

Revenue generated during the three months ended September 30, 2014 was \$55,681, compared to \$6,773 of revenue generated during the same period in 2013. Third quarter 2014 revenues were generated almost exclusively from halloysite sales, including sales of Dragonite to a ceramic formulator and 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 September 30, 2014 were \$2,444,972 compared to \$3,257,763 of operating expenses incurred during the same period in 2013, a decrease of \$812,791. The decrease was due primarily to a \$920,340, or 46%, decrease in general and administrative costs.

Exploration costs incurred during the three months ended September 30, 2014 were \$1,174,208 compared to \$1,175,430 of exploration costs incurred during the same period in 2013, a decrease of \$1,222, or 0.10%. 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. While total exploration costs remained relatively unchanged, the Company hired new mining personnel in 2014 to facilitate the sorting and processing of our minerals. The increase in mine personnel costs, including health benefits, 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 September 30, 2014 totaled \$1,082,550 compared to \$2,002,890 of expense incurred during the same period in 2013, a reduction of \$920,340 or 46%. The reduction was driven primarily by a \$1,187,247 decrease in noncash stock compensation expense due to certain management equity options granted in November 2012, which vested through the end of 2013. This was slightly offset by increased corporate personnel hired during late 2013, including a Head of Iron Oxide, and increased expenses relating to hiring two additional directors.

Net Loss for the three-month period ending September 30, 2014 was \$2,576,750 compared to a loss of \$3,869,099 incurred during the same period in 2013, a decrease of \$1,292,349 or 33%. The decrease in the Net Loss was primarily due to a \$920,340 decrease in General & Administrative expenses, mainly related to noncash stock compensation; a \$430,650 increase in Other Income, mainly due to a non-cash, valuation gain of a PIK Note derivative, offset by a \$91,895 increase in depreciation expense after completion of the new mill.

Table Of Contents*Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013***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:

| | Nine Months Ended September 30, | | Variance | |
|--|------------------------------------|----------------------|--------------------|---------------|
| | 2014 | 2013 | Amount | % |
| REVENUES | \$ 114,688 | \$ 44,737 | \$ 69,951 | 156 % |
| OPERATING (INCOME) EXPENSES: | | | | |
| Production costs | 42,771 | 18,986 | 23,785 | 125 % |
| Exploration costs | 3,628,943 | 3,418,696 | 210,247 | 6 % |
| General and administrative | 3,680,285 | 5,978,976 | (2,298,691) | (38 %) |
| Depreciation expense | 416,338 | 236,552 | 179,786 | 76 % |
| Total Operating Expenses | 7,768,337 | 9,653,210 | (1,884,873) | (20 %) |
| Net Operating Loss | (7,653,649) | (9,608,473) | 1,954,824 | (20 %) |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense, net, including amortization of deferred financing cost and debt discount | (918,631) | (226,454) | (692,177) | 306 % |
| Gain on revaluation of warrant derivative | 814,000 | 850,000 | (36,000) | (4 %) |
| Loss on revaluation of stock awards | 110,000 | 45,000 | 65,000 | 144 % |
| Gain(loss) on revaluation of PIK note derivative | 1,764,938 | (615,000) | 2,379,938 | 387 % |
| Other income (expense) | (86,337) | 2,052 | (88,389) | (4307 %) |
| Total Other Income (Expense) | 1,683,970 | 55,598 | 1,628,372 | 2929 % |
| Net Loss | \$(5,969,679) | \$(9,552,875) | \$3,583,196 | (38 %) |

Revenue generated during the nine months ended September 30, 2014 was \$114,688, compared to \$44,737 of revenue generated during the same period in 2013. Halloysite sales increased by 143% from \$39,737 during the nine months ended September 30, 2013 to \$96,541 during the nine months ended September 30, 2014, while sales of iron oxide increased by 263% from \$5,000 during the nine months ended September 30, 2013 to \$18,147 during the nine months ended September 30, 2014. The increase in halloysite sales resulted from sales of Dragonite to a ceramic formulator and 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. The increase in iron oxide sales resulted primarily from the sale of Amiron as a hydrogen sulfide scavenger. 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 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 or iron ore.

Total operating expenses for the nine months ending September 30, 2014 were \$7,768,337 compared to \$9,653,210 of expenses incurred during the same period in 2013, a reduction of \$1,884,873. The reduction was due primarily to a \$2,298,691 decrease in general and administrative expense, offset by a \$210,247 increase in exploration costs and a \$179,786 increase in depreciation expense arising from the fixed assets at the new mill.

Exploration costs incurred during the nine months ended September 30, 2014 were \$3,628,943 compared to \$3,418,696 of costs incurred during the same period in 2013, an increase of \$210,247, or 6%. The majority of our exploration expenses during the nine-month period were 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 to facilitate the sorting and processing of our minerals. This increase in mine personnel costs, including health benefits, were partially offset by the absence of drilling costs in 2014 as a drilling program was started and finished during the first quarter of 2013.

General and administrative expenses incurred during the nine months ended September 30, 2014 totaled \$3,680,285 compared to \$5,978,976 of expense incurred during the same period in 2013, a decrease of \$2,298,691. The reduction was driven primarily by a \$2,874,331 decrease in noncash stock compensation expense due to certain management equity options granted in November 2012, but vesting and incurring compensation expense only through 2013. This was slightly offset by increased corporate personnel hired during late 2013, including a Head of Iron Oxide; increased shareholder expenses relating to additional meetings held during 2014 to increase awareness of the company stock; increased travel from the additional corporate hires; and increased expenses relating to hiring two additional directors.

Net Loss for the nine-month period ended September 30, 2014 was \$5,969,679 compared to a loss of \$9,552,875 incurred during the same period in 2013, a decrease of \$3,583,196 or 38%. The decrease in the Net Loss was due to a \$2,298,691 reduction in general and administrative expenses; a \$1,628,372 increase in Other Income, primarily from a noncash revaluation of warrants and PIK Notes; offset by increases in exploration costs and depreciation expense, as described above.

Table Of Contents

LIQUIDITY AND CAPITAL RESOURCES

In November 2014, the Company raised \$12.5 million in capital financing through the issuance of PIK Notes. 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 nine months ended September 30, 2014, the Company's net loss was \$5,969,679 and cash used in operating activities was \$6,156,818. As the Company continues its commercialization efforts of halloysite clay and iron oxide, it may require additional financing to fund its current operations as it has done in the past.

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. 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.

Cash used in operating activities during the nine months ended September 30, 2014 was \$6,156,818 compared to \$6,238,464 of cash used during the same period in 2013. The key difference is in the timing of certain payments made over both periods.

Cash used in investing activities during the nine months ended September 30, 2014 was \$1,297,994 compared to a use of \$1,438,676 during the same period in 2013. The Company incurred costs relating to the new mill, which was commissioned with the lab and office during the first half of 2014.

Cash used in financing activities during the nine months ended September 30, 2014 was \$324,260, compared to a \$15,724,348 source of cash used during the same period in 2013. During the nine months ended September 30, 2013, the Company raised \$16,060,000 of capital for common stock and PIK notes to certain qualified investors in the following transactions:

January 2013- Sale of 3,756,757 shares of its common stock at \$1.48 per share for gross proceeds of \$5,560,000.

August 2013- the Company announced that it successfully raised an additional \$10,500,000 of financing through the private placement of 10% Mandatorily Convertible PIK Notes due 2023 ("Notes"). The Notes have a strike price of \$1.40 per share and convert into 7,500,000 shares of the common stock

No broker was used and no commission was paid for any of the foregoing transactions.

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.

The following table summarizes our contractual obligations as of September 30, 2014 that require us to make future cash payments:

| | Payment due by period | | | | |
|---------------------------------|-----------------------|------------|----------------|----------------|--------------|
| | Total | < 1 year | 1 - 3 years | 3 - 5 years | > 5 years |
| Contractual Obligations: | | | | | |
| Rent obligations | \$ 189,261 | \$ 151,187 | \$ 38,074 | -- | -- |
| Total | \$ 189,261 | \$ 151,187 | \$ 38,074 | -- | -- |

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 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 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.

There were no additions or material changes to the Company's risk factors as disclosed in Item 1A of Part I in the Company's 2013 Annual Report on Form 10-K.

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 stamen or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposed of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under theses 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: November 10, 2014 /s/ ANDRE ZEITOUN
By: Andre Zeitoun
Chief Executive Officer

Dated: November 10, 2014 /s/ NAT KRISHNAMURTI
By: Nat Krishnamurti
Chief Financial Officer