

Applied Minerals, Inc.  
Form S-1/A  
March 31, 2014

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As filed with the Securities and Exchange Commission on March 31 , 2014  
Registration No. 191532

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AMENDMENT NO. 4  
TO  
FORM S-1  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

APPLIED MINERALS, INC.  
(Name of small business issuer in its charter)

Delaware (State of jurisdiction of incorporation or organization)	1044 (Primary Standard Industrial Classification Code Number)	82-0096527 (I.R.S. Employer Identification No.)
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110 Greene Street, Suite 1101, New York, NY 10012  
(212) 226-4265  
(Address and telephone number of principal executive offices  
and principal place of business)

William Gleeson  
General Counsel  
Applied Minerals, Inc.  
110 Greene Street – Suite 1101, New York, NY 10012  
(212) 226-4251  
(Name, address and telephone number of agent for service)

Approximate date of proposed sale to the public:

From time to time after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering.

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 (Do not check if a smaller reporting company)

Smaller reporting company

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## CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock, \$0.001 par value per	7,500,000(2)	\$1.09	\$8,175,000	\$1052
Common Stock, \$0.001 par value per	12,399,733(3)	\$1.09	\$13,515,708	1741
Total	19,899,733		27,359,626	2,959

- (1) In addition, pursuant to Rule 416 under the Securities Act of 1933, this Registration Statement includes an indeterminate number of additional shares as may be issuable on (a) the exercise of options or warrants or (b) on then already issued shares as a result of stock splits, stock dividends or similar transactions which occur during this continuous offering.
- (2) Represents the shares that are issuable on the conversion of 10% PIK-Election Convertible Notes due 2023 ("PIK Notes") that were issued on August 2, 2013
- (3) Represents that maximum amount of shares that may be issued on conversion of PIK Notes (a) that may be issued as payment-in-kind interest on the PIK Notes referred to in footnote (2) and (b) that may be issued as interest on PIK Notes that will have been issued as payment-in-kind interest. The maximum amount of shares assumes that all PIK Notes described in footnotes (2) and (3) are converted immediately prior to maturity in 2023. Given the Company's current financial position, it is anticipated that for the foreseeable future, the Company will pay interest using Notes issued as payment-in-kind interest.
- (4) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) of the Securities Act based on the average of the high and low prices of our Common Stock, as reported on the OTCQB quotation service on September 30, 2013.

The prospectus contained in this registration statement is a combined prospectus relating to this registration statement and also to Registration Statement No. 333-179139, which is a registration statement on Form S-3. Applied Minerals, Inc. is not currently eligible to use Form S-3 and is amending onto Form S-1 with respect to Registration Statement No. 333-179139.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.



PROSPECTUS  
APPLIED MINERALS, INC.

35,086,146 Shares of Common Stock and 5,000,000 Warrants

This prospectus relates to the offer and sale, from time to time, of the following

- Up to 19,899,733 shares of our common stock with par value of \$0.001 (“Common Stock”) issuable on conversion of \$10.5 million of 10% PIK-Election Convertible Notes due 2023 (“PIK Notes”). The interest rate on the PIK Notes is 10% per year and at the Company’s election, interest may be paid in cash or in PIK Notes (i.e., may be “paid in kind” or “PIK”ed). 7,500,000 shares are issuable on conversion of the PIK Notes that were issued on August 2, 2013 (the date of the initial issuance of PIK Notes) and 375,000 shares are issuable on conversion of PIK Notes that have been issued as interest. If the Company issues additional PIK Notes in payment of interest, the number of shares to which this Prospectus relates will increase, and if the Company makes all the interest payments by issuing additional PIK Notes and all the PIK Notes (including all the PIK Notes issued as interest) remain outstanding until 2023, the additional shares issuable on conversion of the PIK Notes issued in payment of interest could increase the number of shares to which this Prospectus relates to 19,899,733 shares. Given the Company’s current financial position, it is anticipated that for the foreseeable future, the Company will pay interest using Notes issued as payment-in-kind interest.
  - 10,000,000 already outstanding shares of Common Stock issued on December 22, 2011.
- The offer and sale by the holders of warrants (“Warrants”) listed under the table “Warrants” in the “Selling Securityholders” section of up to 5,000,000 warrants (“Warrants”), each of which gives the holder the right to purchase 1.0372 shares of Common Stock at \$1.9281 per share (as the price and the number of shares may be adjusted from time to time under antidilution provisions).
- The sale of up to 5,186,413 shares of our Common Stock issuable upon exercise of the Warrants (“Warrant Shares”), either by the holders of the Warrants to the extent that the Selling Securityholders exercise the Warrants or by us, to the extent the Warrants are not exercised by the Selling Securityholders before sale under this prospectus or otherwise.

The Common Stock, Warrants, and Warrant Shares are referred to collectively as the “Securities.” The sellers referred to above as collectively referred to as the “Selling Securityholders.”

The term “Selling Securityholders” includes the persons listed in the table under “Selling Securityholders” and also donees, pledgees, transferees or other successors-in-interest selling Securities or interests in Securities received after the date of this prospectus from a Selling Securityholder as a gift, pledge, partnership distribution or other transfer. The Selling Securityholders may sell all or any portion of their Securities in one or more transactions on any stock exchange, market or trading facility on which the shares are traded or in private, negotiated transactions. Each Selling Securityholder will determine the prices at which the Selling Securityholder’s securities will be sold. Although we will incur expenses in connection with the registration of the shares of Common Stock offered under this prospectus, we will not receive any proceeds from the sale of the shares of Common Stock by the Selling Securityholders.

Our Common Stock is quoted on the OTCQB under the symbol “AMNL.” On March 28, 2014, the closing bid quotation of our Common Stock was \$ 0.71. There is no market for the Warrants and none is expected to develop. Our principal executive offices are located 110 Greene Street, Suite 1101, New York, NY 10012. Our telephone

number is (212) 226-4265.

We may amend or supplement this prospectus from time to time by filing amendments or supplements as required. You should carefully read this entire prospectus and any amendments or supplements to this prospectus as well as material incorporated by reference into this prospectus before you make your investment decision.

The shares of Common Stock and the Warrants offered under this prospectus involve a high degree of risk. See “Risk Factors” beginning at page 7 and the risk factors that are incorporated by reference in this prospectus from our filings made with the Securities and Exchange Commission.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is \_\_\_\_\_, 2014

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## TABLE OF CONTENTS

	Page
Note Regarding Forward Looking Statements	5
Prospectus Summary	5
Business	8
Risk Factors	8
The Offering	13
Antidilution Provisions of the PIK Notes	13
Use of Proceeds	13
Price Range of Our Common Stock and Other Securityholder Matters	14
Description of Capital Stock	14
Description of Warrants	15
SEC Position of Indemnification	20
Selling Securityholders	20
Plan of Distribution	21
Related Party Transactions	23
Legal Matters	24
Experts	24
Incorporation of Certain Documents by Reference	24
Where You Can Find More Information	24
Exhibit A -- Form of Warrant	25

We have not authorized any person to give you any supplemental information or to make any representations for us. You should not rely upon any information about our Company that is not contained in, or incorporated by reference into, this prospectus or a supplement thereto. Information contained in this prospectus may become stale. You should not assume that the information contained in this prospectus or any prospectus supplement is accurate as of any date other than their respective dates, regardless of the time of delivery of this prospectus or of any sale of the shares. Our business, financial condition, results of operations and prospects may have changed since those dates.

The Selling Securityholders are offering to sell, and seeking offers to buy, shares of our Common Stock and Warrants only in jurisdictions where offers and sales are permitted.

Unless otherwise specified or the context otherwise requires, references in this prospectus to the “Company,” “we,” “us,” and “our” refer to Applied Minerals, Inc., a Delaware corporation, and its consolidated subsidiary.

## NOTE REGARDING FORWARD LOOKING STATEMENTS

This prospectus and the documents incorporated by reference contain "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.

## PROSPECTUS SUMMARY

You should read this summary in conjunction with the more detailed information and financial statements in this prospectus and any supplement thereto and/or incorporated by reference into this prospectus. This summary does not contain all of the information you should consider before investing in our securities. You should read all of the information in this prospectus and any supplement thereto and incorporated in this prospectus carefully, especially the risks of investing in our securities (see "Risk Factors") before making an investment decision.

In this prospectus and any amendment or supplement hereto, unless otherwise indicated, the terms the "Company", "we", "us", and "our" refer and relate to Applied Minerals, Inc.

- Securities Being Offered      This prospectus relates to the offer and sale, from time to time, to the following
- up to 19,899,733 shares of our common stock with par value of \$0.001 ("Common Stock") issuable on conversion of \$10.5 million of 10% PIK-Election Convertible Notes due 2023. The interest rate on the PIK Notes is 10% per year and at the Company's election, interest may be paid in cash or in PIK Notes (i.e., may be "paid in kind" or "PIK"ed). 7,500,000 shares are issuable on conversion of the PIK Notes that were issued on August 2, 2013 (the date of the initial issuance of PIK Notes) and 375,000 shares are issuable on conversion of PIK Notes that have been issued as interest. If the Company issues additional PIK Notes in payment of interest, the number of shares to which this Prospectus relates will increase, and if the Company makes all the interest payments by issuing additional PIK Notes and all the PIK Notes (including all the PIK Notes issued as interest) remain outstanding until 2023, the additional shares issuable on conversion of the PIK Notes issued in payment of interest could increase the number of shares to which this Prospectus relates to 19,899,733 shares. Given the Company's current financial position, it is anticipated that for the foreseeable future, the Company will pay interest using Notes issued as payment-in-kind interest.
  - 10,000,000 already outstanding shares of Common Stock issued on December 22, 2011.
  - The offer and sale by the holders of Warrants listed under the table "Warrants" in the selling "Securityholders" section of up to 5,000,000 Warrants, each of which gives the holder the right to purchase 1.0372 shares of Common Stock at \$1.9281 per share (as the price and the number of shares may be adjusted from time to time under antidilution provisions).
  - The sale of up to 5,186,413 shares of our Common Stock issuable upon exercise of the Warrants ("Warrant Shares"), either by the holders of the Warrants to the extent that the Selling



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Securityholders exercise the Warrants or by us, to the extent the Warrants are not exercised by the Selling Securityholders before sale under this prospectus or otherwise.

The Common Stock, Warrants, and Warrant Shares are referred to collectively as the “Securities.” The sellers referred to above as collectively referred to as the “Selling Securityholders.”

See “The Offering” and “Selling Securityholders .”

**Antidilution Provisions** The PIK Notes and the Warrants contain antidilution provisions.

See “ Antidilution Provisions of the PIK Notes ” for a detailed description of the mechanics of the antidilution provisions of the PIK Notes. See “Description of Warrants” for a detailed description of the antidilution provisions of the Warrants.

**Use of Proceeds** The Company will receive none of the proceeds from the sale of the Common Stock or the Warrants by the Selling Securityholders . The proceeds will go to the Selling Securityholders. If the Selling Securityholders exercise the Warrants and sell the Warrant Shares, they will receive proceeds of the sale of Warrant Shares.

The Company will receive the proceeds of the exercise of the Warrants, whether exercised by the Selling Securityholders or persons who purchase Warrants offered pursuant to this prospectus. There are 5,000,000 Warrants exercisable at \$1.9281 per Warrant and the Company could receive up to \$10 million for the exercise thereof. However, only proceeds of exercises pursuant to this prospectus will be proceeds of the offering under this prospectus. The Company would use such proceeds for working capital.

See “Use of Proceeds.”

**Plan of Distribution** The term “Selling Securityholders ” includes the persons listed in the Selling Securityholders table and also donees, pledgees, transferees or other successors-in-interest selling Securities or interests in Securities received after the date of this prospectus from a Selling Securityholder as a gift, pledge, partnership distribution or other transfer. The Selling Securityholders may, from time to time, sell any or all of their Securities on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The Selling Securityholders may also engage in puts and calls and other transactions in our Securities or derivatives of our Securities and may sell or deliver the Securities in connection with these trades.

Broker-dealers engaged by the Selling Securityholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Securityholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated.

See "Plan of Distribution."

**Business** The Company is an exploration-stage mining company that owns the Dragon Mine, located in Eureka, Utah. The Dragon Mine contains halloysite clay and other clays and also iron ore, among other minerals. There are also five waste piles at the Dragon Mine created by former owners and the clay minerals in waste piles may have potential for commercialization.

As of March 31, 2014, the Company has not classified the halloysite and other clay deposits at the Dragon Mine as a reserve according to Industry Guide No. 7 of the Securities and Exchange Commission.

As of March 31, 2014 the Company is marketing its halloysite product to enhance the performance of a range of high-end commercial applications, many of which have not previously utilized halloysite.

The Company is also marketing its iron ore, but as of March 31, 2014 has not classified the iron ore deposit as a reserve according to Industry Guide No. 7 of the Securities and Exchange Commission.

The Company has not yet begun to market the mineralization in the waste piles and as of March 31, 2014, has not classified that mineralization in the waste piles as a reserve according to Industry Guide No. 7 of the Securities and Exchange Commission.

As of March 31, 2014 sales of halloysite and the iron ore have been minimal.

At December 31, 2013 and December 31, 2012, the Company had accumulated deficits since management took over on January 1, 2009 of \$ 41,812,476 and \$28,748,950, respectively, in addition to unprofitable operations. For the twelve months ended December 31, 2013 and 2012, the Company sustained net losses before discontinued operations of \$ 13,063,526 and 9,732,399, respectively. The Company's continuation as a going concern is contingent upon its ability to obtain additional financing and/or to generate revenue and cash flow to meet its obligations on a timely basis. The Company has historically been unable to generate enough revenue and cash flow to fund its operating expenses and capital expenditures.

See "Business."

**Risk Factors** An investment in our Securities is very speculative and involves a high degree of risk. If you decide to buy our Securities, you should be able to afford a complete loss of your investment.

In order to meet operating expenses, the Company has had to raise funds from investors through the issuance of equity and convertible debt securities. If the Company is unable to fund its operations through the commercialization of the Dragon Mine, and/or the sale of equity, debt, or a combination of both, it may have to file bankruptcy. The

Company may have to seek additional financing and there is no assurance that it will be able to do so.

See "Risk Factors."

**Common Stock Rights** Holders of Common Stock are entitled to one vote per share. Holders of Common Stock have no cumulative voting rights in the election of directors.

Holders of Common Stock are entitled to receive ratably dividends if, as and when dividends are declared from time to time by our Board of Directors out of funds legally available for that purpose, after payment of dividends required to be paid on outstanding preferred stock or series Common Stock.

The Company has never paid a dividend and does not anticipate paying one in the future.

See "Description of Common Stock."

**Warrants** The Warrant is exercisable in whole or in part at an exercise price of \$1.9281 for 1.0372 shares of Common Stock . The Warrants are exercisable immediately and expire five years after issuance, which was December 22, 2011.

#### Rights of Holders on Certain Events

In the event of a merger or similar transaction, voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company, the holders of the Warrants will be entitled to receive the same consideration as shareholders.

In the event of a Fundamental Transaction, the holders of the Warrants will have an option to require the Company to repurchase the Warrants, at a price equal to the product of (i) the number of Warrant Shares issuable upon exercise of the Warrant and (ii) the five day VWAP as of the fifth trading day immediately following public announcement of the Fundamental Transaction less the exercise price.

A Fundamental Transaction includes (a) a merger, or similar transaction in which the Company is not the survivor in such transaction or if the Company is the survivor, the holders of shares of Common Stock immediately prior to such transaction (including for this purpose any shares issuable upon exercise of the Warrants) represent less than 50% of the shares of Common Stock outstanding immediately following such transaction, and (b) any sale of all or substantially all of the Company's assets.

#### Adjustments to the Exercise Price of, and the Number of Shares Subject to, the Warrant

The number of shares issuable on the exercise of the Warrant and the exercise price will be adjusted to prevent dilution in the event of (i) any issuance of Common Stock as a dividend or distribution to all holders of Common Stock, or a subdivision, combination or reclassification of the outstanding shares of Common Stock into a greater or smaller number of shares, (ii) below market issuances; (iii) issuances below the then current market price; (iv) pro rate distributions of a dividend or distribution evidences of indebtedness , assets (including cash and cash dividends, or rights, warrants, options or other securities convertible into or exchangeable or exercisable for capital stock (other than Common Stock otherwise dealt with above); (v) the consummation of a self-tender offer or self-exchange offer for Common Stock, in which the cash and fair value of any other consideration included in the payment per share of Common Stock exceeds the market price. The adjustments are "weighted-average" as opposed to "full ratchet" and are "narrow-based" (taking into account outstanding Common Stock) as opposed to "broad-based" (taking into account not only outstanding shares but also shares issuable pursuant to the exercise of options and warrants). The adjustments in general to lower the exercise price and increase the number of shares to compensate for the dilutive effects of the several actions.

If any single action would require adjustment of the exercise price pursuant to more than one adjustment procedures set forth above, only one adjustment will be made and such adjustment will be the amount of adjustment that has the highest absolute value.

#### Call Option

The Company has the option acquire the Warrant, in whole or in part; provided , that, the following conditions are met: (a) the VWAP for the 60 consecutive trading days immediately preceding the date on which the holder receives the call notice is in excess of \$2.00 and (b) the closing market price of the Common Stock is in excess of \$2.00 on the date immediately preceding the date on which the call notice is received.

For each part of this Warrant representing the right to acquire 1.0372 shares (as may be adjusted from time to time of Common Stock (each, a “Warrant Right”), the price to be paid in cash by the Company to the holder for each Warrant Right (the “Option Price”) will be equal to the difference between (a) the greater of (i) the market price on the date immediately preceding the date on which the holder receives the call notice and (ii) the VWAP for the 60 consecutive trading days immediately preceding the date on which the holder receives the call notice and (b) \$2.00; provided , that, under no circumstances will the Company acquire the Warrant Rights from the holder for less than \$0.10 per Warrant Right.

See “ Description of Warrants .”

Market for Our Common Stock    Our Common Stock is traded on the OTCQB. On March 28, 2014 , the closing market price on the OTCQB was \$0.71 .

See “Price Range of our Common Stock.”

Market for the Warrants    There is no established market for the Warrants and it is anticipated that none will develop.

## BUSINESS

Applied Minerals, Inc. (the “Company”) is an exploration-stage mining company that owns and operates the Dragon Mine in Eureka, Utah. The mine has deposits of halloysite and other clays and iron oxide. There are also waste piles of containing halloysite and other clays left by prior operators that are have potential commercial uses. The Company’s products are marketed under the Dragonite™ name.

As of March 31 , 2014 , the Company has not classified the halloysite or other clay deposits at the Dragon Mine as a reserve according to Industry Guide No. 7 of the Securities and Exchange Commission. As of March 31 , 2014 , the Company is marketing its halloysite product to enhance the performance of a range of high-end commercial applications many of which have not previously utilized halloysite.

The Company is also marketing its iron ore, but as of March 31 , 2014 , has not classified the iron ore deposit as a reserve according to Industry Guide No. 7 of the Securities and Exchange Commission.

The Company has not yet begun marketing the mineralization in the waste piles and as of March 31 , 2014 , has not classified that mineralization in the waste piles as a reserve according to Industry Guide No. 7 of the Securities and Exchange Commission.

As of March 31, 2014 sales of halloysite and the iron ore have been minimal.

At December 31 , 2013 and December 31, 2012, the Company had accumulated deficits since current management took over on January 1, 2009 of \$41,812,476 and \$28,748,950, respectively, in addition to unprofitable operations.

The Company's continuation as a going concern is contingent upon its ability to obtain additional financing and/or to generate revenue and cash flow to meet its obligations on a timely basis. The Company has historically been unable to generate enough revenue and cash flow to fund its operating expenses and capital expenditures.

For a full description of our business, see the filings incorporated by reference into this prospectus and any information relating to our business in any supplement to this prospectus.

## RISK FACTORS

**AN INVESTMENT IN OUR SECURITIES IS VERY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS , ALONG WITH THE OTHER MATTERS REFERRED TO IN OUR ANNUAL REPORT, ON FORM 10-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BEFORE YOU DECIDE TO BUY OUR SECURITIES. IF YOU DECIDE TO BUY OUR SECURITIES, YOU SHOULD BE ABLE TO AFFORD A COMPLETE LOSS OF YOUR INVESTMENT.**

Our business activities are subject to significant risks, including those described below . Every investor or potential investor in our securities should carefully consider these risks. If any of the described risks actually occurs, our business, financial position and results of operations could be materially adversely affected. Such risks are not the only ones we face and additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business.

**AN INVESTMENT IN OUR SECURITIES IS VERY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS, ALONG WITH THE OTHER MATTERS REFERRED TO IN THIS ANNUAL REPORT, BEFORE YOU DECIDE TO BUY OUR**

SECURITIES. IF YOU DECIDE TO BUY OUR SECURITIES, YOU SHOULD BE ABLE TO AFFORD A COMPLETE LOSS OF YOUR INVESTMENT.

SPECIFIC RISKS APPLICABLE TO APPLIED MINERALS

FINANCIAL HISTORY

Losses. We have experienced annual operating losses since our reactivation in September 1997. For the year ended December 31, 2013 and 2012, the Company sustained losses from continuing operations of \$13,063,526 and \$9,732,399, respectively.

Accumulated Deficits. . At December 31, 2013 and 2012, the Company had accumulated deficits since current management took over on January 1, 2009 of \$41,812,476 and \$28,748,950, respectively, in addition to limited cash and unprofitable operations.

NO SIGNIFICANT SALES .

Since January 1, 2009 when current management took over, the Company has sold only \$313,519 of clay and iron oxide and in 2013, the Company had sales of only \$54,825.

RELIANCE OF EQUITY AND DEBT SALES TO FINANCE OPERATIONS

The Company has had to rely mainly on the proceeds from the sale of stock and convertible debt to fund its operations. If the Company is unable to fund its operations through the commercialization of its minerals at the Dragon Mine, there is no assurance that it will be able to raise funds through the sale of equity or debt. If so, it may have to file bankruptcy.



## SUCCESS IS DEPENDENT ON PENETRATING MARKETS

Obviously, in order for the Company to be successful, we must penetrate our target markets and achieve sales levels and generate sufficient cash flow to break even and to be a success we must do better than that. As outlined below, there is uncertainty that we will be able to do so.

Many of the applications for which we are selling for our halloysite-based material are applications for which halloysite has not been used previously. As a result, there are a number of special obstacles that we need to overcome to achieve sales in these markets. It is necessary to convince manufacturers to change their manufacturing processes and substitute our halloysite-based material for the product they are currently using, and in some cases, to use our halloysite-based material where no product was used before. The process beginning with introducing our halloysite-based material to manufactures and ending with the manufacturing using our production its products can encounter inertia, skepticism, and different corporate priorities; requires educating potential customers on the benefits of our material and how to use our material (how much to add, when to add, and so forth) and often requires working with potential customers to assure that the potential customers test the materials under proper conditions. While we believe that our halloysite-based material often adds significant value, we can say two things about the process that ends with manufacturers using our halloysite-based material: it can take a long time and there is no certainty that we will be able to convince enough manufacturers to use our halloysite-base material. Moreover, since our halloysite-based materials have not been used in large scale commercial production, there is an element of uncertainty as to whether it will demonstrate significant value in that context.

Other applications for which we are selling for our halloysite-based material are applications for which halloysite has been used previously. Similarly, the applications for which we are selling our iron oxides are applications for which iron oxides have been used previously. To penetrate these markets, we fact the difficulties encounters by any company trying to enter an established market competing against established players, all of whom are in better financial condition that we are and are already familiar to, and in many cases have relationships with, the potential customers, all of which can make such customers more attractive than us. While we believe that in many cases, our products are superior to those already in the market, there is uncertainty that we will be able to penetrate those markets to a sufficient degree.

## COMPETITION

Dragonite .

Currently there are no companies competing with us in any significant respect in connection with the sale of halloysite-based products (Dragonite) in the advanced applications target markets. We do face competition in the whiteware markets from Imerys, a large French minerals company that owns the only other mine to produce significant tonnage of halloysite. For our Dragonite to penetrate our target markets, we face significant competition as we compete against non-halloysite solutions sold by larger, more established companies. The basis for competition is performance and price.

If we are successful in penetrating our target markets, we may face competition from operators of halloysite clay deposits in other locations around the world. We believe that our Dragon Mine property is one of only two large-sized halloysite deposits in the world. The other deposit is owned by Imerys. It is our understanding that given the level of purity of the Imerys' halloysite, Imerys would face processing costs that we do not have to bear if it decided to compete in markets for advanced applications. There are a number of other smaller deposits of halloysite in the U.S. and other parts of the world, some of which produce halloysite commercially. Whether halloysite from any of these deposits will compete with our halloysite-based products, or the extent to which they can compete, is not known to us.

Iron Oxide

We expect to compete with companies that are much larger and better capitalized than we are.

Pigments . There is significant competition within the iron oxide pigment market. We will try to compete directly with synthetic iron oxide pigments in the coatings markets by selling our pigments