

Applied Minerals, Inc.  
Form 10-Q  
May 16, 2016  
Table Of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2016

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 (Zip Code)  
executive  
offices)

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

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

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller-reporting company" in Rule 12b-2 of the Exchange Act.

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

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

YES NO

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

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of May 13, 2016 was 97,392,709.

DOCUMENTS INCORPORATED BY REFERENCE: None.

---

Table Of Contents

**APPLIED MINERALS, INC.**

**(An Exploration Stage Company)**

FIRST QUARTER 2016 REPORT ON FORM 10-Q

***TABLE OF CONTENTS***

**PART I. FINANCIAL INFORMATION**

|   | Page(s) |
|---|---------|
| Item 1. <u>Condensed Consolidated Financial Statements</u>  |         |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2016 (unaudited) and December 31, 2015</u>                     | 1       |
| <u>Condensed Consolidated Statements of Operations (unaudited) for the Three Months Ended March 31, 2016 and 2015</u>   | 2       |
| <u>Condensed Consolidated Statements of Stockholders' Deficit (unaudited) for the Three Months Ended March 31, 2016</u> | 3       |
| <u>Condensed Consolidated Statements of Cash Flows (unaudited) for the Three Months Ended March 31, 2016 and 2015</u>   | 4       |
| <u>Notes to the Condensed Consolidated Financial Statements</u>   | 6-15    |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                    | 16-21   |
| 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>                              |    |

---

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

(An Exploration Stage Mining Company)

## CONDENSED CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2016<br>(Unaudited) | December<br>31,<br>2015 |
|---|----------------------------------|-------------------------|
| <b><u>ASSETS</u></b>  |                                  |                         |
| <b>Current Assets</b>   |                                  |                         |
| Cash and cash equivalents   | \$900,577                        | \$1,803,131             |
| Accounts receivable   | 264,457                          | 176,205                 |
| Deposits and prepaid expenses   | 251,095                          | 322,922                 |
| Other current receivables   | - 0 -                            | 94,647                  |
| <b>Total Current Assets</b>   | <b>1,416,129</b>                 | <b>2,396,905</b>        |
| <b>Property and Equipment, net</b>  | <b>4,937,849</b>                 | <b>5,206,825</b>        |
| <b>Other Assets</b>   |                                  |                         |
| Deposits  | 269,272                          | 269,202                 |
| Assets Held for Sale  | 380,999                          | 445,180                 |
| <b>Total Other Assets</b>   | <b>650,271</b>                   | <b>714,382</b>          |
| <b>TOTAL ASSETS</b>   | <b>\$7,004,249</b>               | <b>\$8,318,112</b>      |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>                                  |                                  |                         |
| <b>Current Liabilities</b>  |                                  |                         |
| Accounts payable and accrued liabilities  | \$1,649,528                      | \$1,623,152             |
| Current portion of notes payable  | 128,168                          | 210,429                 |
| <b>Total Current Liabilities</b>  | <b>1,777,696</b>                 | <b>1,833,581</b>        |
| <b>Long-Term Liabilities</b>  |                                  |                         |
| Long-term portion of notes payable  | 28,135                           | 33,688                  |
| PIK Notes payable, net of \$17,084,480 and \$17,572,885 debt discount, respectively | 18,180,058                       | 17,051,636              |
| PIK Note derivative   | 3,104,942                        | 5,138,857               |
| <b>Total Long-Term Liabilities</b>  | <b>21,313,135</b>                | <b>22,224,181</b>       |
| <b>Total Liabilities</b>  | <b>23,090,831</b>                | <b>24,057,762</b>       |

**Commitments and Contingencies (Note 10)****Stockholders' (Deficit)**

|   |                     |                     |
|---|---------------------|---------------------|
| Preferred stock, \$0.001 par value, 10,000,000 shares authorized, none issued and outstanding   |                     |                     |
| Common stock, \$0.001 par value, 200,000,000 shares authorized, 97,286,772 and 97,144,736 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively | 97,287              | 97,145              |
| Additional paid-in capital  | 66,296,699          | 66,106,631          |
| Accumulated deficit prior to the exploration stage  | (20,009,496)        | (20,009,496)        |
| Accumulated deficit during the exploration stage  | (62,471,072)        | (61,933,930)        |
| <b>Total Stockholders' (Deficit)</b>  | <b>(16,086,582)</b> | <b>(15,739,650)</b> |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>  | <b>\$7,004,249</b>  | <b>\$8,318,112</b>  |

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

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

(An Exploration Stage Mining Company)

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

|  | For the Three Months<br>Ended<br>March 31, |                     |
|--|--|---------------------|
|  | 2016                                       | 2015                |
| <b>REVENUES</b>  | \$ 1,001,628                               | \$ 162,747          |
| <b>OPERATING EXPENSES:</b>   |  |                     |
| Production costs   | 4,549                                      | 2,235               |
| Exploration costs  | 778,879                                    | 1,327,281           |
| General and administrative   | 1,173,826                                  | 1,182,309           |
| Depreciation expense   | 336,087                                    | 326,222             |
| <b>Total Operating Expenses</b>  | <b>2,293,341</b>                           | <b>2,838,047</b>    |
| Operating Loss   | (1,291,713 )                               | (2,675,300 )        |
| <b>OTHER INCOME (EXPENSE):</b>   |  |                     |
| Interest expense, net, including amortization of deferred financing cost and debt discount | (1,372,420 )                               | (1,028,627 )        |
| Interest Income  | 585  | --                  |
| Gain on disposal of property   | 92,491                                     | --                  |
| (Loss) gain on revaluation of PIK Note derivative  | 2,033,915                                  | (92,741 )           |
| Other expense  | --   | (397,797 )          |
| <b>Total Other Income (Expense)</b>  | <b>754,571</b>                             | <b>(1,519,165 )</b> |
| Net loss   | \$(537,142 )                               | \$(4,194,465 )      |
| <b>Net Loss Per Share (Basic and Diluted)</b>  | <b>\$(0.01 )</b>                           | <b>\$(0.04 )</b>    |
| <b>Weighted Average Shares Outstanding (Basic and Diluted)</b>                             | <b>97,243,610</b>                          | <b>95,107,112</b>   |

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





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

(An Exploration Stage Mining Company)

**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT**

(Unaudited)

|  | Common Stock |          |                                  | Accumulated<br>Deficit<br>Prior to<br>Exploration<br>Stage | Accumulated<br>Deficit<br>During<br>Exploration<br>Stage | Total<br>Stock-<br>holder's<br>Deficit |
|--|--------------|----------|----------------------------------|--|--|--|
|  | Shares       | Amount   | Additional<br>Paid-In<br>Capital |  |  |  |
| Balance, December 31, 2015   | 97,144,736   | \$97,145 | \$66,106,631                     | \$(20,009,496)   | \$(61,933,930)   | \$(15,739,650)                         |
| Shares issued for directors fees<br>and other services               | 142,036      | 142      | 63,087                           | --   | --   | 63,229                                 |
| Stock-based compensation<br>expense for consultants and<br>directors | --           | --       | 126,981                          | --   | --   | 126,981                                |
| Net Loss   | --           | --       | --                               | --   | (537,142 )   | (537,142 )                             |
| Balance, March 31, 2016  | 97,286,772   | \$97,287 | \$66,296,699                     | \$(20,009,496)   | \$(62,471,072)   | \$(16,086,582)                         |

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

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

(An Exploration Stage Mining Company)

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

|  | For the Three Months<br>Ended<br>March 31, |                     |
|--|--|---------------------|
|  | 2016                                       | 2015                |
| <b>Cash Flows from Operating Activities:</b>                     |  |                     |
| Net loss   | \$(537,142 )                               | \$(4,194,465 )      |
| Adjustments to reconcile net loss to net cash used in operations |  |                     |
| Depreciation   | 336,087                                    | 326,222             |
| Amortization of discount - PIK Notes                             | 488,403                                    | 231,404             |
| Amortization of deferred financing costs                         | 1,875                                      | 1,875               |
| Issuance of PIK Notes in payment of interest                     | 638,142                                    | 578,813             |
| Stock issued for director fees and other services                | 63,229                                     | 117,873             |
| Stock-based compensation expense for consultants and directors   | 126,981                                    | 99,938              |
| (Gain) loss on revaluation of PIK Note derivative                | (2,033,915)                                | 92,741              |
| Gain on sale of property   | (92,491 )                                  | --                  |
| Change in operating assets and liabilities:                      |  |                     |
| (Increase) Decrease in:  |  |                     |
| Accounts receivable  | (88,251 )                                  | (31,439 )           |
| Other current receivables  | 94,647                                     | --                  |
| Deposits and prepaids  | 71,758                                     | 37,079              |
| Increase (Decrease) in:  |  |                     |
| Accounts payable and accrued liabilities                         | 26,376                                     | (116,856 )          |
| <b>Net cash used in operating activities</b>                     | <b>(904,301 )</b>                          | <b>(2,856,815 )</b> |
| <b>Cash Flows From Investing Activities:</b>                     |  |                     |
| Sale of property   | 156,672                                    | --                  |
| Purchases of property and equipment                              | (67,111 )                                  | --                  |
| <b>Net cash provided by investing activities</b>                 | <b>89,561</b>                              | <b>--</b>           |
| <b>Cash Flows From Financing Activities:</b>                     |  |                     |
| Payments on notes payable  | (87,814 )                                  | (113,558 )          |
| <b>Net cash used in financing activities</b>                     | <b>(87,814 )</b>                           | <b>(113,558 )</b>   |
| Net change in cash and cash equivalents                          | (902,554 )                                 | (2,970,373 )        |
| Cash and cash equivalents at beginning of period                 | 1,803,131                                  | 10,701,666          |

|   |           |             |
|---|-----------|-------------|
| <b>Cash and cash equivalents at end of period</b> | \$900,577 | \$7,731,293 |
|---|-----------|-------------|

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

4

---

Table Of Contents

**APPLIED MINERALS, INC.**

(An Exploration Stage Mining Company)

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

For the Three  
Months Ended  
March 31,  
2016 2015

Cash Paid For:

|              |         |         |
|--------------|---------|---------|
| Interest     | \$1,296 | \$4,198 |
| Income Taxes | --      | --      |

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, 2015, included in the Company's Annual Report filed on Form 10-K for such year. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the entire year.

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

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

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

**NOTE 3 – LIQUIDITY**

The Company has a history of recurring losses from operations and use of cash in operating activities. For the three months ended March 31, 2016, the Company's net loss was \$537,142 and cash used in operating activities was

\$904,301. In addition, at March 31, 2016, the Company had a working capital deficiency of \$361,567, which includes \$1,113,727 of accrued PIK Note interest and \$148,851 of payables for which the Company believes it has a statute of limitations defense. Furthermore, the Company last obtained financing in November 2014 but cannot provide any assurance that it will be able to raise additional financing if needed. Collectively, these factors raise substantial doubt about the Company's ability to continue as a going concern.

Based on the Company's current cash usage expectations for 2016, it believes it will have sufficient liquidity to fund its operations for at least the next 12 months only if it successfully accelerates the fulfillment of the aforementioned take-or-pay agreement to December 2016 on acceptable economic terms. However, the Company can provide no assurances that it will be able to negotiate an agreement to accelerate the fulfillment of the agreement on acceptable economic terms. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

On March 23, 2016, the Company entered into an agreement to sell the fourth property for gross proceeds of \$418,000. The sale closed on April 21, 2016 and the net proceeds to the Company totaled approximately \$380,000, net of a 10% buyer's premium paid to the auction firm, J.P. King.

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

##### Exploration-Stage Company

From 1997 through 2008, the Company's sole source of revenue and income was derived from its contract mining business through which it provided shaft sinking, underground mine development and mine labor services. At December 31, 2008, the Company discontinued its contract mining efforts due to economic conditions and the desire to concentrate its efforts on the commercialization of the halloysite clay deposit at the Dragon Mine. Effective January 1, 2009, the Company was, and still is, classified as an exploration company as the existence of proven or probable reserves have not been demonstrated and no significant revenue has been earned from the mine. Under the SEC's Industry Guide 7, a mining company is considered an exploration stage company until it has declared mineral reserves determined in accordance with the guide and staff interpretations thereof.

##### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Applied Minerals, Inc. and its inactive subsidiary in northern Idaho.

Table Of ContentsUse 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 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. No allowance was required at March 31, 2016 and 2015.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

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

Depreciation expense for the three months ended March 31, 2016 and 2015 totaled \$336,087 and \$326,222, respectively. The Company currently does not capitalize any amounts to its mineral resources and therefore does not



have any depletion expense.

### Fair Value

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

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

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

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

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

|                                 | <b>Fair value measurement using inputs</b> |                |                | <b>Carrying amount</b> |                          |
|---------------------------------|--|----------------|----------------|------------------------|--------------------------|
|                                 | <b>Level 1</b>                             | <b>Level 2</b> | <b>Level 3</b> | <b>March 31, 2016</b>  | <b>December 31, 2015</b> |
| <b>Financial instruments:</b>   |  |                |                |                        |                          |
| Series 2023 PIK Note Derivative | \$-0-                                      | \$-0-          | \$197,073      | \$197,073              | \$262,764                |
| Series A PIK Note Derivative    | \$-0-                                      | \$-0-          | \$2,907,869    | \$2,907,869            | \$4,876,093              |

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

|  |             |
|--|-------------|
| Balance at December 31, 2015               | \$5,138,857 |
| Net unrealized gain included in operations | (2,033,915) |

Balance at March 31, 2016                      \$3,104,942

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, receivables, other current assets, and accounts payable and accrued expenses approximates the fair value at March 31, 2016 and December 31, 2015 based upon the short-term nature of the assets and liabilities. Based on borrowing rates currently available to the Company for loans with similar terms, and the remaining short-term period outstanding, the carrying value of notes payable other than PIK Notes approximates fair value. Estimated fair value of the PIK Notes Payable approximate \$22,769,784 and \$21,789,259, respectively, at March 31, 2016 and December 31, 2015.

7

---

Table Of Contents

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

| <b>Series 2023 PIK Note derivative liability</b> | Fair Value   |          |   |
|--|--------------|----------|---|
|  | Measurements |          |   |
|  | Using Inputs |          |   |
|  | March        | December |   |
|  | 31,          | 31,      |   |
|  | 2016         | 2015     |   |
| Market price and estimated fair value of stock   | \$0.18       | \$ 0.28  |   |
| Exercise price                                   | \$1.36       | \$ 1.36  |   |
| Term (years)                                     | 7.33         | 7.58     |   |
| Dividend yield                                   | \$-0-        | \$ -0-   |   |
| Expected volatility                              | 79.7%        | 72.9     | % |
| Risk-free interest rate                          | 1.54%        | 2.12     | % |

| <b>Series A PIK Note derivative liability</b>  | Fair Value   |          |   |
|--|--------------|----------|---|
|  | Measurements |          |   |
|  | Using Inputs |          |   |
|  | March        | December |   |
|  | 31,          | 31,      |   |
|  | 2016         | 2015     |   |
| Market price and estimated fair value of stock | \$0.18       | \$ 0.28  |   |
| Exercise price                                 | \$0.92       | \$ 0.92  |   |
| Term (years)                                   | 7.33         | 7.58     |   |
| Dividend yield                                 | \$-0-        | \$ -0-   |   |
| Expected volatility                            | 79.7%        | 72.9     | % |
| Risk-free interest rate                        | 1.54%        | 2.12     | % |

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

### Mining Exploration and Development Costs

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

### Income taxes

The Company uses an asset and liability approach which results in the recognition of deferred tax liabilities and assets for the expected future tax consequences or benefits of temporary differences between the financial reporting basis and the tax basis of assets and liabilities, as well as operating loss and tax credit carry forwards, using enacted tax rates in effect in the years in which the differences are expected to reverse. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. A valuation allowance has been provided for the portion of the Company's net deferred tax assets for which it is more likely than not that they will not be realized.

The Company is subject to U.S. federal income tax as well as income tax of certain state jurisdictions. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company follows the provision of ASC Topic 740-10, "Income Taxes", relating to recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and requires increased disclosures. This guidance provides that the tax effects from an uncertain tax position can be recognized in our financial statements, only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. As of March 31, 2016, no amounts are included in the financial

statements for unrecognized tax benefits.

8

---

Table Of Contents

Stock Options and Warrants

The Company follows ASC 718 (Stock Compensation) and 505-50 (Equity-Based Payments to Non-employees), which provide guidance in accounting for share-based awards exchanged for services rendered and requires companies to expense the estimated fair value of these awards over the requisite service period.

Per share data

Loss per share for the three months ended March 31, 2016 and 2015, respectively, is calculated based on 97,243,610 and 95,107,112 weighted average outstanding shares of common stock.

At March 31, 2016 and 2015, respectively, the Company had outstanding options and warrants to purchase 19,380,012 and 18,535,581 shares of Company common stock, and had notes payable which were convertible into 33,639,466 and 30,086,390 shares, respectively, of the Company common stock, none of which were included in the diluted computation as their effect would be anti-dilutive.

Environmental Matters

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

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

Based upon management's current assessment of its environmental responsibilities, it does not believe that any reclamation or remediation liability exists at March 31, 2016.

Recent Accounting Pronouncements

In May 2014, the FASB issued new accounting guidance, Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, on revenue recognition. The new standard provides for a single five-step model to be applied to all revenue contracts with customers as well as requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. Accounting Standards Update No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, but not before the original effective date of the standard. The Company is currently evaluating the impact of the new guidance on our consolidated financial statements.

Table Of Contents

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases, which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 with early adoption permitted. Under Accounting Standards Update 2016-02, lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee's obligation to make lease payments arising from a lease measured on a discounted basis, and a right-to-use asset, which is an asset that represents the lessee's right to use or control the use of a specified asset for the lease term. The Company is currently evaluating the effect that the new guidance will have on its financial statements and related disclosures.

In November 2015, FASB issued Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. Accounting Standards Update 2015-17 simplifies current guidance and requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet. Accounting Standards Update 2015-17 can be applied either prospectively or retrospectively and is effective for periods beginning after December 15, 2016, with early adoption permitted. The Company does not anticipate the new guidance will have a material effect on its financial statements and related disclosures.

Comparative Information

We have reclassified certain prior year information to conform with the current year's presentation.

**NOTE 5 - INCOME TAX**

Income tax provisions or benefits for interim periods are computed based on the Company's estimated annual effective tax rate. Based on the Company's historical losses and its expectation of the continuation of losses for the foreseeable future, the Company has determined that it is more likely than not that deferred tax assets will not be realized and, accordingly, has provided a full valuation allowance as of March 31, 2016 and December 31, 2015.

**NOTE 6 - NOTES PAYABLE**

Notes payable at March 31, 2016 and December 31, 2015 consist of the following:



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

|  | March 31,<br>2016 | December<br>31, 2015 |
|--|-------------------|----------------------|
| Note payable for mining equipment, payable \$950 monthly, including interest (a)       | \$942             | \$3,714              |
| Note payable for equipment, payable \$1,339 monthly, including interest (b)            | 38,753            | 42,235               |
| Note payable for mine site vehicle, payable \$628 monthly (c)                          | 11,311            | 13,196               |
| Note payable to an insurance company, payable \$9,055 monthly, including interest (d)  | 34,406            | 60,953               |
| Note payable to an insurance company, payable \$18,609 monthly, including interest (e) | 70,891            | 124,019              |
|  | 156,303           | 244,117              |
| Less: Current Portion  | (128,168)         | (210,429)            |
| <b>Notes Payable, Long-Term Portion</b>  | <b>\$28,135</b>   | <b>\$33,688</b>      |

On April 17, 2012, the Company purchased mining equipment for \$40,565 by issuing a note with an effective (a) 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 October 31, 2014, the Company purchased mining equipment for \$65,120 by paying a deposit and issuing a (b) note in the amount of \$57,900 with an interest rate of 5.2%. The note is collateralized by the mining equipment with payments of \$1,339 for 48 months, which started on November 30, 2014.

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

(d) The Company signed a note payable with an insurance company dated October 21, 2015 for liability insurance, due in monthly installments, including interest at 11.845%.

(e) The Company signed a note payable with an insurance company dated October 17, 2015 for liability insurance, due in monthly installments, including interest at 3.000%.

The following is a schedule of the principal maturities on these notes as of March 31, 2016:

|                            |                  |
|----------------------------|------------------|
| April 2016 - March 2017    | \$128,168        |
| April 2017 - March 2018    | 20,224           |
| April 2018 - March 2019    | 7,911            |
| <b>Total Notes Payable</b> | <b>\$156,304</b> |

During the three months ended March 31, 2016 and 2015, the Company's interest payments totaled \$1,296 and \$4,178, respectively.

Table Of Contents**NOTE 7 – CONVERTIBLE DEBT (PIK NOTES)**

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

| <b>Key Terms</b>              | <b>Series 2023 Notes</b>  | <b>Series A Notes</b>   |
|-------------------------------|---|---|
| Inception Date                | 08/05/2013  | 11/03/2014  |
| Cash Received                 | \$10,500,000  | \$12,500,000  |
| Principal (Initial Liability) | \$10,500,000  | \$19,848,486  |
| Maturity (Term)               | 10 years, but convertible after 1 year based on the market price of the Company’s stock   | 4 years, but may range between 2 years to the full maturity of the Series 2023 Notes, depending on whether a Specified Event occurs and/or an Extension Option is elected (see below for further details) |
| Exercise Price                | \$1.40 at inception, adjusted downward based on anti-dilution provisions/down-round protection                                    | \$0.92 at inception, adjusted downward based on anti-dilution provisions/down-round protection; also may be reduced by \$0.10 based if Extension Option is elected (see below)                            |
| Stated Interest               | 10% per annum, due semiannually   | 10% per annum, due semiannually, may be reduced to 1% if Specified Event (see below) occurs   |
| Derivative Liability          | \$2,055,000 established at inception due to existence of anti-dilution provisions; revalued every quarter using Monte Carlo model | \$9,212,285 established at inception due to existence of anti-dilution provisions; revalued every quarter using Monte Carlo model   |

As of March 31, 2016, the liability components of the PIK Notes on the Company’s balance sheet are listed in the following table:

|                               | <b>Series 2023 Notes</b> | <b>Series A Notes</b> | <b>Total</b>  |
|-------------------------------|--------------------------|-----------------------|---------------|
| PIK Note Payable, Gross       | \$13,400,958             | \$21,882,955          | \$35,283,913  |
| Less: Discount                | (1,828,368 )             | (15,256,112 )         | (17,084,480 ) |
| Less: Deferred Financing Cost | (7,359 )                 | (12,016 )             | (19,375 )     |
| PIK Note Payable, Net         | \$11,565,231             | \$6,614,827           | \$18,180,058  |

|                               |            |              |              |
|-------------------------------|------------|--------------|--------------|
| PIK Note Derivative Liability | \$ 197,073 | \$ 2,907,869 | \$ 3,104,942 |
|-------------------------------|------------|--------------|--------------|

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

|                               | <b>Series 2023<br/>Notes</b> | <b>Series A<br/>Notes</b> | <b>Total</b>  |
|-------------------------------|------------------------------|---------------------------|---------------|
| PIK Note Payable, Gross       | \$ 12,762,816                | \$ 21,882,955             | \$ 34,645,771 |
| Less: Discount                | (1,854,894 )                 | (15,717,991 )             | (17,572,885 ) |
| Less: Deferred Financing Cost | (7,828 )                     | (13,422 )                 | (21,250 )     |
| PIK Note Payable, Net         | \$ 10,900,094                | \$ 6,151,542              | \$ 17,051,636 |
| PIK Note Derivative Liability | \$ 262,764                   | \$ 4,876,093              | \$ 5,138,857  |

### Series A Notes

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

Below are key terms of the Series A Notes:

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

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

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

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

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

Liquidated Damages- The company is required to pay the noteholders 1% of the principal amount of the Series A Notes if a Registration statement is not filed and effective within 90 days of the inception date (and further damages for every 30 days thereafter). The Company has accrued \$200,000 as Other Expense as of December 31, 2014 due to a delay in such filing.

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

Table Of Contents

These Series A Notes were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. In addition to the customary 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 \$9,212,285 (based on observable inputs using a Monte Carlo model) was bifurcated from the Series A Notes and accounted for as a separate derivative liability, which resulted in a corresponding amount of debt discount on the Series A Notes. In addition, an additional debt discount of \$7,348,486 was recorded as a result of the difference between the \$12,500,000 of cash received and the \$19,848,486 of principal on the Series A Notes. This combined debt discount of \$16,560,771 is being amortized using the effective interest method over the 4-year term of the Notes as Interest Expense, while the PIK Note Derivative is carried at fair value (using a Monte Carlo model) until the Notes are converted or otherwise extinguished. Any changes in fair value are recognized in earnings.

In May 2015 and November 2015, the Company issued \$992,424 and \$1,042,045, respectively, in additional PIK Notes to the holders to pay the semi-annual interest.

At March 31, 2016, the fair value of the Series A PIK Note Derivative was estimated to be \$2,907,869, which includes the value of the additional PIK Notes issued in May and November 2015 for the semi-annual interest payments due. The change in the fair value of the derivative represents a decrease in valuation of \$6,310,415 from the November 3, 2014 inception date.

Series 2023 Notes

In August 2013, the Company received \$10,500,000 of financing through the private placement of 10% mandatory convertible Notes due 2023 ("Series 2023 Notes"). The principal amount of the Notes is due on maturity. The Company can elect to pay semi-annual interest on the Series 2023 Notes with additional PIK Notes containing the same terms as the Series 2023 Notes, except interest will accrue from issuance of such notes. The Company can also elect to pay interest in cash. In February 2016, August 2015 and February 2015, the Company issued \$638,141, \$607,753 and \$578,812, respectively, in additional PIK Notes to the holders to pay the semi-annual interest. In February 2014 and August 2014, the Company issued \$525,000 and \$551,250, respectively, in additional PIK Notes to the holders to pay the semi-annual interest.

The Series 2023 Notes convert into the Company's common stock at a conversion price of \$1.40 per share, which is subject to customary anti-dilution adjustments; these anti-dilution adjustments reduced the conversion price to \$1.36 after the issuance of the Series A Notes. As of issuance, principal amount of the Series 2023 Notes were convertible into 7,500,000 shares of the common stock and into 7,720,588 shares after the issuance of the Series A Notes. The holders may convert the Series 2023 Notes at any time. The Series 2023 Notes are mandatorily convertible after one year when the weighted average trading price of a share of the common stock for the preceding ten trading days is in

excess of the conversion price. The Series 2023 Notes contain customary representations and warranties and several covenants. The proceeds are being used for general corporate purposes. No broker was used and no commission was paid in connection with the sale of the Series 2023 Notes. As of December 31, 2015, the Company was in compliance with the covenants.

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

At March 31, 2016, the fair value of the PIK Note Derivative was estimated to be \$197,073, which includes the value of the additional PIK Notes issued in February 2016, August 2015, February 2015, August 2014 and February 2014 for the semi-annual interest payments due. The change in the fair value of the derivative represents a decrease in valuation of \$1,857,927 from the August 2, 2013 inception date.

## **NOTE 8 - STOCKHOLDERS' EQUITY**

### Preferred Stock

The Company is authorized to issue 10,000,000 shares of noncumulative, non-voting, nonconvertible preferred stock, \$0.001 par value per share. At March 31, 2016 and December 31, 2015, no shares of preferred stock were outstanding.

### Common Stock

On November 20, 2012, stockholders of the Company approved to increase the authorized shares of common stock from 120,000,000 to 200,000,000 shares, \$0.001 par value per share. At March 31, 2016 and December 31, 2015, 97,286,772 and 97,144,736 shares were issued and outstanding, respectively.

During the three months ended March 31, 2016, the Company issued a total of 142,036 shares of common stock valued at \$63,229 to directors and consultants as payments of fees.



Table Of Contents**NOTE 9 - OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK**Outstanding Stock Warrants

A summary of the status of the warrants outstanding and exercisable at March 31, 2016 is presented below:

| Exercise Price | Number Outstanding | Warrants Outstanding and Exercisable  |                                 |
|----------------|--------------------|---------------------------------------|---------------------------------|
|                |                    | Remaining Contractual Life<br>(years) | Weighted Average Exercise Price |
| \$ 1.15        | 461,340            | 5.08                                  | \$ 1.15                         |
| \$ 2.00        | 54,367             | 0.34                                  | \$ 2.00                         |
|                | 515,707            | 4.58                                  | \$ 1.24                         |

No warrants were issued during 2015 or the first quarter of 2016. The intrinsic value of the outstanding warrants at March 31, 2016 was \$0.

Outstanding Stock Options

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

The fair value of each of the Company's stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted in the table below. Expected volatility is based on an average of historical volatility of the Company's common stock. The risk-free interest rate for periods within the contractual life



of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury Bond on the date the award is granted with a maturity equal to the expected term of the award.

The significant assumptions relating to the valuation of the Company's options issued for the three months ended March 31, 2016 and 2015 were as follows on a weighted average basis:

|                         | March<br>31,<br>2016 |   | December<br>31, 2015 |   |
|-------------------------|----------------------|---|----------------------|---|
| Dividend Yield          | 0                    | % | 0                    | % |
| Expected Life (years)   | 6.7                  |   | 5.6                  |   |
| Expected Volatility     | 79.7                 | % | 51.0                 | % |
| Risk Free Interest Rate | 1.86                 | % | 1.47                 | % |

A summary of the status and changes of the options granted under stock option plans and other agreements for the first quarter of 2016 is as follows:

|                                    | March 31, 2016 |  |  |
|------------------------------------|----------------|--|--|
|                                    | Shares         | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life* |
| Outstanding at beginning of period | 17,806,472     | \$ 1.00                                  | 5.12   |
| Issued                             | 907,833        | 0.27                                     | 7.60   |
| Exercised                          | -0-            | --                                       | --   |
| Forfeited                          | -0-            | --                                       | --   |
| Outstanding at end of period       | 18,714,305     | \$ 0.96                                  | 5.01   |
| Exercisable at end of period       | 17,218,886     | \$ 1.00                                  | 4.75   |

\* Measured in years

Table Of Contents

During the three months ended March 31, 2016, the Company granted 907,833 options to purchase the Company's common stock with a weighted average exercise price of \$0.27 and the following vesting schedule.

| Vesting Information |             |            |            |
|---------------------|-------------|------------|------------|
| Shares              | Frequency   | Begin Date | End Date   |
| 250,000             | Quarterly   | 01/01/2016 | 10/01/2016 |
| 158,206             | Immediately | 01/05/2016 | 01/05/2016 |
| 43,885              | Immediately | 01/06/2016 | 01/06/2016 |
| 32,415              | Immediately | 01/09/2016 | 01/09/2016 |
| 81,522              | Annually    | 01/19/2017 | 01/19/2018 |
| 81,395              | Annually    | 01/27/2017 | 01/27/2018 |
| 80,000              | Annually    | 01/28/2017 | 01/28/2018 |
| 144,815             | Annually    | 01/29/2017 | 01/29/2018 |
| 35,595              | Annually    | 02/01/2017 | 02/01/2018 |

A summary of the status of the options outstanding at March 31, 2016 is presented below:

| Options Outstanding |             | Options Exercisable |             |          |
|---------------------|-------------|---------------------|-------------|----------|
| Number              | Weighted    | Weighted            | Number      | Weighted |
|                     | Average     |                     |             |          |
| Outstanding         | Remaining   | Exercise            | Exercisable | Exercise |
|                     | Contractual | Price               |             | Price    |
|                     | Life        |                     |             |          |
|                     | (years)     |                     |             |          |
| 81,395              | 7.89        | \$ 0.21             | - 0 -       | \$ 0.21  |
| 100,000             | 4.47        | \$ 0.22             | 50,002      | \$ 0.22  |
| 35,595              | 7.04        | \$ 0.27             | - 0 -       | \$ 0.27  |
| 474,815             | 8.11        | \$ 0.28             | 62,500      | \$ 0.28  |
| 234,506             | 6.89        | \$ 0.285            | 234,506     | \$ 0.285 |
| 81,522              | 4.81        | \$ 0.30             | - 0 -       | \$ 0.30  |
| 200,000             | 8.88        | \$ 0.66             | 200,000     | \$ 0.66  |
| 150,000             | 8.86        | \$ 0.68             | 49,995      | \$ 0.68  |
| 7,233,277           | 2.75        | \$ 0.70             | 7,233,277   | \$ 0.70  |
| 488,356             | 9.13        | \$ 0.73             | 128,767     | \$ 0.73  |
| 3,405,134           | 5.44        | \$ 0.83             | 3,405,134   | \$ 0.83  |
| 975,000             | 8.20        | \$ 0.84             | 741,667     | \$ 0.84  |

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

|            |      |         |            |         |
|------------|------|---------|------------|---------|
| 300,000    | 7.39 | \$ 1.10 | 200,000    | \$ 1.10 |
| 300,000    | 7.24 | \$ 1.15 | 258,333    | \$ 1.15 |
| 100,000    | 1.84 | \$ 1.24 | 100,000    | \$ 1.24 |
| 115,000    | 4.99 | \$ 1.35 | 115,000    | \$ 1.35 |
| 125,000    | 1.84 | \$ 1.45 | 125,000    | \$ 1.45 |
| 330,000    | 5.70 | \$ 1.55 | 330,000    | \$ 1.55 |
| 7,645      | 1.84 | \$ 1.58 | 7,645      | \$ 1.58 |
| 3,077,060  | 6.64 | \$ 1.66 | 3,077,060  | \$ 1.66 |
| 900,000    | 5.39 | \$ 1.90 | 900,000    | \$ 1.90 |
| 18,714,305 | 5.00 | \$ 1.00 | 17,218,886 | \$ 1.00 |

The weighted-average grant-date fair value of options granted during the first quarter of 2016 was \$0.27.

Compensation expense of \$126,982 and \$99,938 has been recognized for the vested options for the three months ended March 31, 2016 and 2015, respectively. The aggregate intrinsic value of the outstanding options at March 31, 2016 was \$0. At March 31, 2016, \$328,745 of unamortized compensation expense for unvested options is expected to be recognized over the next 1.52 years on a weighted average basis.

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

The following table summarizes our contractual obligations as of March 31, 2016 that require us to make future cash payments:

|                                 | Payment due by period |                  |                |
|---------------------------------|-----------------------|------------------|----------------|
|                                 | Total                 | < 1 year         | 1 - 3<br>years |
| <b>Contractual Obligations:</b> |                       |                  |                |
| Rent obligations                | \$118,179             | \$118,179        | \$ --          |
| <b><i>Total</i></b>             | <b>\$118,179</b>      | <b>\$118,179</b> | <b>\$ --</b>   |

**Contingencies**

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

Table Of Contents

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

**Forward-looking Statements**

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

**Overview**

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

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

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

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

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

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

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

### ***Critical Accounting Policies and Estimates***

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). In connection with the preparation of our consolidated financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates, and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, we review the accounting policies,

assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with US GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

## Table Of Contents

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

### 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

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, other current assets, and accounts payable and accrued expenses approximate the fair value at December 31, 2015 and 2014 based upon the short-term nature of the assets and liabilities. Based on borrowing rates currently available to the Company for loans with similar terms, and the remaining short term period outstanding, the carrying value of notes payable materially approximate fair value. For the Company's warrant and PIK note derivative liabilities the fair value was estimated using a Monte Carlo Model.

### 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.



Recent Accounting Pronouncements

In May 2014, the FASB issued new accounting guidance, Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, on revenue recognition. The new standard provides for a single five-step model to be applied to all revenue contracts with customers as well as requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. Accounting Standards Update No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, but not before the original effective date of the standard. The Company is currently evaluating the impact of the new guidance on our consolidated financial statements.

In April 2015, the FASB issued an ASU 2015-03, which requires that debt issuance costs be presented in the balance sheet as a direct reduction to the carrying amount of the associated debt liability, consistent with debt discounts. Currently debt issuance costs are recognized as an asset. The ASU is effective for the Company in the first quarter of 2017 and is required to be applied retrospectively. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its balance sheets.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02, Leases, which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 with early adoption permitted. Under Accounting Standards Update 2016-02, lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee's obligation to make lease payments arising from a lease measured on a discounted basis, and a right-to-use asset, which is an asset that represents the lessee's right to use or control the use of a specified asset for the lease term. The Company is currently evaluating the effect that the new guidance will have on its financial statements and related disclosures.

In November 2015, FASB issued Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. Accounting Standards Update 2015-17 simplifies current guidance and requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet. Accounting Standards Update 2015-17 can be applied either prospectively or retrospectively and is effective for periods beginning after December 15, 2016, with early adoption permitted. The Company does not anticipate the new guidance will have a material impact on its financial statements and related disclosures.

Table Of Contents*Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015***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<br>March 31, |               | Variance    |          |    |
|--|---------------------------------|---------------|-------------|----------|----|
|  | 2016                            | 2015          | Amount      | %        |    |
| <b>REVENUES</b>  | \$1,001,628                     | \$162,747     | 838,881     | 515.5    | %  |
| <b>OPERATING EXPENSES:</b>   |                                 |               |             |          |    |
| Production costs   | 4,549                           | 2,235         | 2,314       | 103.5    | %  |
| Exploration costs  | 778,879                         | 1,327,281     | (548,402 )  | (41.3    | %) |
| General and administrative   | 1,173,826                       | 1,182,309     | (8,483 )    | (0.7     | %) |
| Depreciation expense   | 336,087                         | 326,222       | 9,865       | 3.0      | %  |
| <b>Total Operating Expenses</b>  | 2,293,341                       | 2,838,047     | (544,706 )  | (19.2    | %) |
| <b>Operating Loss</b>  | (1,291,713)                     | (2,675,300)   | 1,383,587   | (51.7    | %) |
| <b>OTHER INCOME (EXPENSE):</b>   |                                 |               |             |          |    |
| Interest expense, net, including amortization of deferred financing cost and debt discount | (1,372,420)                     | (1,028,627)   | (343,793 )  | 33.4     | %  |
| Interest income  | 585                             | --            | 585         | --       |    |
| Gain on disposal of property   | 92,491                          | --            | 92,491      | --       |    |
| (Loss) gain on revaluation of PIK Note derivative  | 2,033,915                       | (92,741 )     | 2,126,656   | (2,293.1 | %) |
| Other income (expense)   | --                              | (397,797 )    | 397,797     | --       |    |
| <b>Total Other Income (Expense)</b>  | 754,571                         | (1,519,165)   | 2,273,736   | (149.7   | %) |
| <b>NET LOSS</b>  | \$(537,142 )                    | \$(4,194,465) | \$3,657,323 | (87.2    | %) |

Revenue generated during the three months ended March 31, 2016 was \$1,001,628, compared to \$162,747 of revenue generated during the same period in 2015, an increase of 515.5%. This increase was due primarily to the sale of AMIRON iron oxide through a take-or-pay supply agreement entered into by the Company on November 2, 2015. During the three months ended March 31, 2016, the Company, through the take-or-pay supply agreement, generated

\$856,128 of revenue. This agreement did not exist during the same period in 2015. Also contributing to the revenue increase during the quarter was \$114,400 of sales of DRAGONITE halloysite clay for use in a specialty zeolite application that were not realized during the same period in 2015 and \$7,776 of sales of AMIRON for use within a pigment application. Partially offsetting the increase in revenue during the three months ended March 31, 2016, was a \$79,200 decline in sales of AMIRON to a producer and distributor of pigments, a \$38,673 decline in sales of DRAGONITE to a customer for use as a nucleating agent and a decline of approximately \$20,000 in sales of DRAGONITE to a number of customers for plant trials. We believe the decline in sales of AMIRON to a producer of pigments and the decline in sales of DRAGONITE to a customer for use as a nucleating agent are due to those customers still working through their respective inventories of our products. The decline in sales of DRAGONITE to a number of customers for plant trials was due primarily to the completion of those trials.

Table Of Contents

Total operating expenses for the three months ended March 31, 2016 were \$2,293,341 compared to \$2,838,047 of operating expenses incurred during the same period in 2015, a decrease of \$544,706 or 19.2%. The decline in operating costs was driven by a decline of \$548,402 in explorations costs and an \$8,483 decrease in general and administrative expense.

Exploration costs incurred during the three months ended March 31, 2016 were \$778,879 compared to \$1,327,281 of exploration costs incurred during the same period in 2015, a decrease of \$548,402 or 41.3%. Exploration costs are associated with the Company's activities at its Dragon Mine location. The decline was driven primarily by a \$215,127 decrease in wages and wage-related expense due to a reduction in headcount at the Company's Dragon Mine operation. This reduction in headcount resulted from the planned completion of certain underground exploration activities. Expenses related to underground development, such as materials and supplies, equipment rental, ground support expense and drilling supplies, declined by \$195,715 due to the aforementioned completion of underground development at the Dragon Mine. Professional services expense decreased by \$79,854 due to the elimination of geological consulting related to the completion of planned characterization of the Dragon Mine property. Testing expenses related to the use of third-party labs declined by \$62,355 due to the Company's establishment of a testing lab at the Dragon Mine. Supply expenses related to equipment maintenance declined by \$38,970. The decrease in the above components of exploration expense was partially offset by an increase in propane costs of \$25,159 due to the processing of iron oxide, a \$12,107 increase in insurance expense related to an increase in business interruption coverage, a \$10,124 increase in diesel and utility expense, and a \$2,487 increase in postage and shipping expense.

General and administrative expenses incurred during the three months ended March 31, 2016 totaled \$1,173,826 compared to \$1,182,309 of expense incurred during the same period in 2015, a decrease of \$8,483, or 0.7%. The Company's selling and administrative expenses are associated primarily with its New York operations.

The largest component of the Company's general and administrative expense includes wage and equity-based compensation to employees, directors and consultants. Wages for the three months ended March 31, 2016 totaled \$643,791, an increase of \$184,111 when compared to the same period in 2015. The increase was due primarily to \$112,500 in performance bonus payments paid to the Company's CFO, General Counsel and a third employee that were not paid during the same period in 2015, \$78,000 in wages paid to two new employees who were not employees during the same period in 2015, a \$75,000 bonus payment paid to the Company's CEO this quarter that was paid in the fourth quarter of 2014, and \$25,000 of wages paid to the Company's General Counsel during this quarter that were paid in the fourth quarter of 2014, partially offset by \$68,661 of wages not paid to employees during the quarter who left the Company during 2015. After adjusting for the effects of the aforementioned bonus payments and wage increases due to the net hiring of new employees, the Company's wage expense during the quarter would have been \$421,952, \$37,728 less than the wage expense incurred during the same period in 2015. This decline is due to the effect of a reduction in the salaries of certain employees, announced by the Company in late 2015.

Expense associated with equity grants totaled \$126,961 during the quarter, an increase of \$27,043 when compared to the same period in 2015. This increase during the quarter was primarily due to an increase in equity-based

compensation granted to employees and directors. In particular, certain employees and directors elected to take a portion, or a greater portion, of their compensation in equity when compared to the same period in 2015. The increases in wage and equity-based compensation during the quarter were partially offset by an \$86,277 decrease in shareholder expense, a \$63,793 decrease in the use of outside legal and consulting services, a \$31,201 decrease in directors' cash compensation, and a \$13,010 decrease in travel expense. These declines are the result of actions outlined by the Company in late 2015 focused on the reduction of certain operating expense.

Operating loss incurred during the three months ended March 31, 2016 was \$1,291,713 compared to a loss of \$2,675,300 incurred during the same period in 2015, a decrease of \$1,383,587 or 51.7%. The decrease in operating loss during the quarter was due to a 515.5% increase in revenue and an 18.9% decrease in operating expense. The Company's execution of its take-or-pay supply agreement during the quarter was the primary driver of the decline in operating loss.

Net Loss for the three-month period ending March 31, 2016 was \$537,142 compared to a loss of \$4,194,465 incurred during the same period in 2015, a decrease of \$3,657,323, or 87.2%. The decline in net loss was due primarily to the 51.4% decline in operating loss, a \$2,033,915 gain on the revaluation of the PIK Note derivative compared to a loss of \$92,741 during the comparable period in 2015, and a \$397,797 decline in other expense, partially offset by a \$343,793 increase in interest expense.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company has a history of recurring losses from operations and use of cash in operating activities. For the three months ended March 31, 2016, the Company's net loss was \$537,142 and cash used in operating activities was \$904,301. In addition, at March 31, 2016, the Company had a working capital deficiency of \$361,567, which includes \$1,113,727 of accrued PIK Note interest, which the Company expects to satisfy through the issuance of additional PIK Notes, and \$148,851 of payables for which the Company believes it has a statute of limitations defense. Furthermore, the Company last obtained financing in November 2014 but cannot provide any assurance that it will be able to raise additional financing if needed. Collectively, these factors raise substantial doubt about the Company's ability to continue as a going concern.

Based on the Company's current cash usage expectations for 2016, it believes it will have sufficient liquidity to fund its operations for at least the next 12 months only if it successfully accelerates the fulfillment of the aforementioned take-or-pay agreement to December 2016 on acceptable economic terms. However, the Company can provide no assurances that it will be able to negotiate an agreement to accelerate the fulfillment of the agreement on acceptable economic terms. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

Cash used in operating activities in 2016 was \$904,301 compared to \$2,856,815 of cash used during the same period in 2015. The primary drivers of the decline in the usage of cash were the \$838,881, or 515.5%, increase in revenue and the \$544,706, or 19.2%, decrease in operating expenses when compared to the same period in 2015. Changes in operating assets and liabilities also benefitted operating cash flow by approximately \$105,000.

Cash provided by investing activities during 2016 was \$89,561 compared to \$0 during the same period in 2015. The cash provided by investing activities during the quarter consisted of proceeds from the sale of property for \$156,672, partially offset by the purchase of equipment for \$67,111.

Cash used in financing activities during 2016 was \$87,814 compared to \$113,558 of cash used during the same period in 2015. The cash used in financing activities was related to the payment of notes.

Total assets at March 31, 2016 were \$7,004,249 compared to \$8,318,112 at December 31, 2015, a decrease of \$1,313,863 due primarily to a decrease in cash related to the funding of operations. Total liabilities were \$23,090,831 at March 31, 2016, compared to \$24,057,762 at December 31, 2015.

Table Of Contents**ISSUANCE OF CONVERTIBLE DEBT**

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

| <b>Key Terms</b>              | <b>Series 2023 Notes</b>  | <b>Series A Notes</b>   |
|-------------------------------|---|---|
| Inception Date                | 08/05/2013  | 11/03/2014  |
| Cash Received                 | \$10,500,000  | \$12,500,000  |
| Principal (Initial Liability) | \$10,500,000  | \$19,848,486  |
| Maturity (Term)               | 10 years, but is mandatorily convertible after 1 year if the market price of the Company’s stock exceeds the conversion price of the note | 4 years, but may range between 2 years to the full maturity of the Series 2023 Notes, depending on whether a Specified Event occurs and/or an Extension Option is elected (see below for further details) |
| Exercise Price                | \$1.40 at inception, adjusted downward based on anti-dilution provisions/downround protection   | \$0.92 at inception, adjusted downward based on anti-dilution provisions; also may be reduced by \$0.10 based if Extension Option is elected (see below)  |
| Stated Interest               | 10% per annum, due semiannually   | 10% per annum, due semiannually, may be reduced to 1% if Specified Event (see below) occurs   |
| Derivative Liability          | \$2,055,000 established at inception due to existence of anti-dilution provisions; revalued every quarter using Monte Carlo model         | \$9,212,285 established at inception due to existence of anti-dilution provisions/downround protection; revalued every quarter using Monte Carlo model  |

Series A Notes

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

Below are key terms of the Series A Notes:

**Maturity-** November 3, 2018, provided that the Stated Maturity Date may be extended to November 3, 2019 at the option of the Company (the “Extension Option”) if (i) the Company has delivered written notice of its exercise of the Extension Option to the Holder not more than ninety (90) nor less than thirty (30) days prior to November 3, 2018

and (ii) the Company has delivered a certificate, dated as of November 3, 2018, certifying that no Default or Event of Default has occurred and is continuing; provided, further that the Stated Maturity Date shall be extended to the maturity date of the Series 2023 Notes or any Replacement Financing, as applicable, upon the occurrence of a Specified Event ("Specified Extension").

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

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

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

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

Liquidated Damages- The company is required to pay the noteholders 1% of the principal amount of the Series A Notes if a Registration statement is not filed and effective within 90 days of the inception date (and further damages for every 30 days thereafter). The Company has accrued \$200,000 as Other Expense as of December 31, 2014 due to a delay in such filing.

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

### Series 2023 Notes

In August 2013, the Company received \$10,500,000 of financing through the private placement of 10% mandatory convertible Notes due 2023 ("Series 2023 Notes"). The principal amount of the Notes is due on maturity. The Company can elect to pay semi-annual interest on the Series 2023 Notes with additional PIK Notes containing the same terms as the Series 2023 Notes, except interest will accrue from issuance of such notes. The Company can also elect to pay interest in cash. In February 2016, the Company issued \$638,141 in additional PIK Notes to pay semi-annual interest due February 1, 2016. In February 2015 and August 2015, the Company issued \$578,813 and \$607,753, respectively, in additional PIK Notes to the holders to pay the semi-annual interest. 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.



Table Of Contents

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

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 March 31, 2016 that require us to make future cash payments:

|                                 | Payment due by period |                  |                |
|---------------------------------|-----------------------|------------------|----------------|
|                                 | Total                 | < 1 year         | 1 - 3<br>years |
| <b>Contractual Obligations:</b> |                       |                  |                |
| Rent obligations                | \$118,179             | \$118,179        | \$ --          |
| <b><i>Total</i></b>             | <b>\$118,179</b>      | <b>\$118,179</b> | <b>\$ --</b>   |

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

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

**ITEM 4. CONTROLS AND PROCEDURES**

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

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

Table Of Contents

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

As of the date of this report, there is no pending or threatened litigation. We may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, could have a material adverse effect on our financial condition, cash flows or results of operations.

**ITEM 1A. RISK FACTORS.**

Except for the below, there were no additions or material changes to the Company's risk factors disclosed in Item 1A of Part I in the Company's 2015 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.

22

---

Table Of Contents

**ITEM 6. EXHIBITS**

(a) Exhibits.

The following exhibits are included in this report:

| Exhibit<br>Number | Description of Exhibit   |
|-------------------|--|
| 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 Principal 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 Principal 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 Principal 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 Principal Financial Officer                     |
| 95                | Mine Safety Disclosure   |
| 101.INS           | XBRL Instance  |
| 101.SCH           | XBRL Taxonomy Extension Schema   |
| 101.CAL           | XBRL Taxonomy Extension Calculation  |
| 101.DEF           | XBRL Taxonomy Extension Definition   |
| 101.LAB           | XBRL Taxonomy Extension Labels   |
| 101.PRE           | XBRL Taxonomy Extension Presentation   |

Information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

XBRL



Table Of Contents

**SIGNATURES**

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

APPLIED MINERALS, INC.

Dated: May 16, 2016 /s/ ANDRE ZEITOUN  
By: Andre Zeitoun  
Chief Executive Officer

Dated: May 16, 2016 /s/ CHRISTOPHER T. CARNEY  
By: Christopher T. Carney  
Chief Financial Officer