

Applied Minerals, Inc.  
Form 10-Q  
May 12, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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

For the transition period from to

Commission File Number 000-31380

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

Delaware 82-0096527  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

110 Greene Street – Suite 1101, New York, NY 10012  
(Address of principal executive offices) (Zip Code)

(800) 356-6463  
(Issuer's Telephone Number, Including Area Code)

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

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

YES  NO

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

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

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

YES  NO

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of May 6, 2014 was 94,843,693.

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APPLIED MINERALS, INC.  
(An Exploration Stage Mining Company)

FIRST QUARTER 2014 REPORT ON FORM 10-Q

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Certification under Sarbanes-Oxley Act of 2002

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APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

## CONDENSED CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2014<br>(Unaudited) | December<br>31,<br>2013 |
|---|----------------------------------|-------------------------|
| <b>ASSETS</b>   |                                  |                         |
| Current Assets  |                                  |                         |
| Cash and cash equivalents   | \$5,871,096                      | \$8,685,552             |
| Accounts receivable, net of \$0 allowance   | 10,944                           | 5,756                   |
| Deposits and prepaid expenses   | 338,276                          | 423,472                 |
| Total Current Assets  | 6,220,316                        | 9,114,780               |
| Property and Equipment  |                                  |                         |
| Land and mining property  | 1,109,938                        | 1,109,938               |
| Property and equipment, net   | 6,100,055                        | 4,921,611               |
| Total Property and Equipment, Net   | 7,209,993                        | 6,031,549               |
| Other Assets  |                                  |                         |
| Deposit   | 68,958                           | 68,958                  |
| Total Other Assets  | 68,958                           | 68,958                  |
| <b>TOTAL ASSETS</b>   | <b>13,499,267</b>                | <b>15,215,287</b>       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>   |                                  |                         |
| Current Liabilities   |                                  |                         |
| Accounts payable and accrued liabilities  | 2,022,654                        | 1,580,146               |
| Stock awards payable  | 72,000                           | 110,000                 |
| Current portion of notes payable  | 198,663                          | 311,165                 |
| Total Current Liabilities   | 2,293,317                        | 2,001,311               |
| Long-Term Liabilities   |                                  |                         |
| Long-term portion of notes payable  | 30,430                           | 40,826                  |
| Warrant derivative  | 225,000                          | 950,000                 |
| PIK notes payable, net of \$2,009,961 and \$2,020,750 debt discount, respectively   | 9,015,039                        | 8,486,583               |
| PIK Note derivative   | 480,375                          | 2,250,000               |
| Total Long-Term Liabilities   | 9,750,844                        | 11,727,409              |
| Total Liabilities   | 12,044,161                       | 13,728,720              |
| Commitments and Contingencies   | --                               | --                      |
| Stockholders' Equity (Deficit)  |                                  |                         |
| Preferred stock, \$0.001 par value, 10,000,000 shares authorized, none issued or outstanding  |                                  |                         |
| Common stock, \$0.001 par value, 200,000,000 shares authorized, 94,767,105 and 94,646,013 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively | 94,767                           | 94,646                  |

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|  |              |              |
|--|--------------|--------------|
| Additional paid-in capital                         | 63,539,536   | 63,213,893   |
| Accumulated deficit prior to the exploration stage | (20,009,496) | (20,009,496) |
| Accumulated deficit during the exploration stage   | (42,169,701) | (41,812,476) |
| Total Stockholders' Equity (Deficit)               | 1,455,106    | 1,486,567    |
| <br>   |              |              |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY         | \$13,499,267 | \$15,215,287 |

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

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APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

|  | For the three months ended |                | For the         |
|--|----------------------------|----------------|-----------------|
|  | March 31,                  |                | Period          |
|  | 2014                       | 2013           | January 1,      |
|  |                            |                | 2009            |
|  |                            |                | (Beginning      |
|  |                            |                | of              |
|  |                            |                | Exploration     |
|  |                            |                | Stage)          |
|  |                            |                | through         |
|  |                            |                | March 31,       |
|  |                            |                | 2014            |
| REVENUES   | \$ 11,014                  | \$ 25,086      | \$ 324,533      |
| OPERATING EXPENSES:  |                            |                |                 |
| Production costs   | 3,749                      | 15,767         | 204,809         |
| Exploration costs  | 1,197,156                  | 1,367,612      | 15,299,545      |
| General and administrative   | 1,254,016                  | 2,145,423      | 27,783,226      |
| Depreciation expense   | 108,386                    | 78,798         | 1,242,144       |
| Loss on impairment and disposition of land and equipment                                   | -0-                        | -0-            | 62,994          |
| Total Operating Expenses   | 2,563,307                  | 3,607,600      | 44,592,718      |
| Operating Loss   | (2,552,293 )               | (3,582,514 )   | (44,268,185 )   |
| OTHER INCOME (EXPENSE):  |                            |                |                 |
| Interest expense, net, including amortization of deferred financing cost and debt discount | (300,167 )                 | (4,933 )       | (2,269,392 )    |
| Gain on revaluation of warrants  | 725,000                    | 495,000        | 2,575,000       |
| Gain (loss) on revaluation of stock award  | 38,000                     | 14,000         | (164,500 )      |
| Gain on revaluation of PIK derivative  | 1,792,500                  | -0-            | 1,597,500       |
| Other income (expense)   | (60,265 )                  | (444 )         | 358,814         |
| Total Other Income   | 2,195,068                  | 503,623        | 2,097,422       |
| Loss from continuing operations  | (357,225 )                 | (3,078,891 )   | (42,170,763 )   |
| Income from discontinued operations  | -0-                        | -0-            | 53,382          |
| Net loss   | (357,225 )                 | (3,078,891 )   | (42,117,381 )   |
| Net income attributable to the non-controlling interest                                    | -0-                        | -0-            | (52,320 )       |
| Net Loss Attributable to Applied Minerals  | \$(357,225 )               | \$(3,078,891 ) | \$(42,169,701 ) |

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|   |              |                |                |
|---|--------------|----------------|----------------|
| Change in Market Value of Investments                   | -0-          | -0-            | 1,327          |
| Net Comprehensive Loss                                  | \$(357,225 ) | \$(3,078,891 ) | \$(42,168,374) |
| Net Loss Per Share (Basic and Diluted)                  | \$-0-        | \$(0.03 )      |                |
| Weighted Average Shares Outstanding (Basic and Diluted) | 94,692,696   | 93,681,139     |                |

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

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APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(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>holders'<br>Equity |
|--|--------------|----------|----------------------------------|--|--|---------------------------------------|
|  | Shares       | Amount   | Additional<br>Paid-In<br>Capital |  |  |                                       |
| Balance, December 31, 2013   | 94,646,013   | \$94,646 | \$63,213,893                     | \$(20,009,496)   | \$(41,812,476)   | \$1,486,567                           |
| Shares issued for directors fees<br>and other services               | 121,092      | 121      | 110,793                          | -0-  | -0-  | 110,914                               |
| Stock-based compensation<br>expense for consultants and<br>directors | -0-          | -0-      | 214,850                          | -0-  | -0-  | 214,850                               |
| Net Loss   | -0-          | -0-      | -0-                              | -0-  | (357,225 )   | (357,225 )                            |
| Balance, March 31, 2014  | 94,767,105   | \$94,767 | \$63,539,536                     | \$(20,009,496)   | \$(42,169,701)   | \$1,455,106                           |

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

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APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|   | For the three months<br>ended<br>March 31, |                 | For the<br>Period<br>January 1,<br>2009<br>(Beginning<br>of<br>Exploration<br>Stage )<br>through<br>March 31,<br>2014 |
|---|--|-----------------|---|
|   | 2014                                       | 2013            |   |
| <b>Cash Flows From Operating Activities:</b>                      |  |                 |   |
| Net loss  | \$ (357,225 )                              | \$ (3,078,891 ) | \$ (42,169,701 )  |
| Adjustments to reconcile net loss to net cash used in operations: |  |                 |   |
| Depreciation  | 108,386                                    | 78,798          | 1,242,144   |
| Amortization of deferred financing costs                          | --   | --              | 150,000   |
| Amortization of discount – PIK Notes                              | 26,331                                     | --              | 435,448   |
| Issuance of PIK Notes in payment of interest                      | 525,000                                    | --              | 1,388,870   |
| Stock issued for director and consulting services                 | 110,914                                    | 38,375          | 779,213   |
| Stock-based compensation expense                                  | 214,850                                    | 1,284,842       | 10,153,682  |
| Gain on revaluation of warrant derivative                         | (725,000 )                                 | (495,000 )      | (2,575,000 )  |
| Gain on revaluation of PIK Notes                                  | (1,792,500)                                | --              | (1,597,500 )  |
| (Gain) loss on revaluation of stock awards for non-employees      | (38,000 )                                  | (14,000 )       | 164,500   |
| Gain on stock award forfeiture                                    | --   | --              | (145,000 )  |
| Loss on disposition of assets                                     | --   | --              | 74,753  |
| Gain on settlement of debts                                       | --   | --              | (101,380 )  |
| Other non-cash income   | --   | --              | (28,587 )   |
| Provision for doubtful accounts                                   | --   | --              | 25,106  |
| Change in operating assets and liabilities:                       |  |                 |   |
| Accounts receivable   | (5,188 )                                   | (16,456 )       | (36,006 )   |
| Deposits and prepaids   | 85,196                                     | 45,299          | 420,767   |
| Accounts payable and accrued expenses                             | (528,614 )                                 | (489,697 )      | 545,394   |
| Net cash (used in) provided by discontinued operations            | --   | --              | 603,585   |
| Net cash used in operating activities                             | (2,375,850)                                | (2,646,730)     | (30,669,712)  |
| <b>Cash Flows From Investing Activities:</b>                      |  |                 |   |
| Purchases of land and mining property                             | --   | --              | (72,923 )   |
| Purchases of property and equipment                               | (18,539 )                                  | (402,986 )      | (858,395 )  |
| Construction-in-progress  | (297,169 )                                 | --              | (3,330,719 )  |
| Proceeds from sale of assets                                      | --   | --              | 151,000   |
| Net cash provided by discontinued operations                      | --   | --              | 434,670   |
| Net cash used in investing activities                             | (315,708 )                                 | (402,986 )      | (3,676,367 )  |
| <b>Cash Flows From Financing Activities:</b>                      |  |                 |   |

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|  |             |             |              |
|--|-------------|-------------|--------------|
| Payments on notes payable                            | (122,898 )  | (136,885 )  | (1,737,436 ) |
| Payments on leases payable                           | --          | --          | (431,088 )   |
| Proceeds from insurance settlement                   | --          | --          | 115,000      |
| Proceeds from notes payable                          | --          | --          | 124,129      |
| Proceeds from PIK notes payable                      | --          | --          | 20,100,000   |
| Proceeds from sale of common stock                   | --          | 5,560,000   | 21,370,000   |
| Payments for legal settlement                        | --          | --          | (170,000 )   |
| Net cash used by discontinued operations             | --          | --          | (56,431 )    |
| Net cash (used in) provided by financing activities  | (122,898 )  | 5,423,115   | 39,314,174   |
| Net (decrease) increase in cash and cash equivalents | (2,814,456) | 2,373,399   | 4,968,095    |
| Cash and cash equivalents at beginning of period     | 8,685,552   | 3,356,103   | 903,001      |
| Cash and cash equivalents at end of period           | \$5,871,096 | \$5,729,502 | \$5,871,096  |

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

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APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|   | For the three months<br>ended<br>March 31, |          | For the<br>Period<br>January 1,<br>2009<br>(Beginning<br>of<br>Exploration<br>Stage )<br>through<br>March 31,<br>2014 |
|---|--|----------|---|
|   | 2014                                       | 2013     | 2014  |
| Cash Paid For:  |  |          |   |
| Interest  | \$3,745                                    | \$6,487  | \$131,667   |
| Income Taxes  | \$1,403                                    | \$2,834  | \$7,259   |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities: |  |          |   |
| Conversion of debt and accrued interest to common stock                 | \$-0-                                      | \$-0-    | \$11,459,738  |
| Property and equipment financed on lease                                | \$-0-                                      | \$-0-    | \$197,000   |
| Property and equipment financed with notes payable                      | \$-0-                                      | \$-0-    | \$642,088   |
| Construction-in-progress in accounts payable                            | \$120,000                                  | \$-0-    | \$524,563   |
| Prepaid insurance financed with note payable                            | \$-0-                                      | \$25,005 | \$545,695   |
| Land reclassified from assets held for sale to land and mining property | \$-0-                                      | -0-      | \$445,180   |
| Reclassification of construction-in-progress to buildings               | \$2,405,648                                | \$-0-    | \$2,405,648   |
| Reclassification of construction-in-progress to milling equipment       | \$1,857,727                                | \$-0-    | \$1,857,727   |
| Reclassification of construction-in-progress to lab equipment           | \$96,077                                   | \$-0-    | \$96,077  |

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

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APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1 - BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited, condensed, consolidated financial statements contain all adjustments necessary to present fairly the financial position of Applied Minerals, Inc. ("Applied Minerals" or "the Company" or "we") and its results of operations and cash flows for the interim periods presented. Such financial statements have been condensed in accordance with the applicable regulations of the Securities and Exchange Commission and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2013, included in the Company's Annual Report filed on Form 10-K for such year. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results to be expected for the entire year.

NOTE 2 - ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

NOTE 3 – LIQUIDITY

As the Company continues its commercialization efforts of halloysite clay and iron oxide, it may also require additional financing later in 2014 to fund its current operations as it has done in the past. The Company has a history of recurring losses from operations and use of cash in operating activities as it is still a development stage company. For the three months ended March 31, 2014, the Company's net loss was \$357,225 and cash used in operating activities was \$2,375,850. As of March 31, 2014, the Company had working capital of \$3,926,999 which may not be sufficient to support its current operations for the next twelve months based on its business plan without obtaining additional financing. Collectively, these factors raise substantial doubt about the Company's ability to continue as a going concern.

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

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Exploration-Stage Company

Effective January 1, 2009, due to the shutdown of our contract mining business, we were, and still are, classified as an exploration company as the existence of proven or probable reserves has not been demonstrated and no significant revenue has been earned from the mine. Under the SEC's Industry Guide 7, a mining company is considered an exploration stage company until it has declared mineral reserves determined in accordance with the guide and staff interpretations thereof. As a result, we are unable to present inventories of mined and processed mineralization and are unable to capitalize any related development costs.

#### Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Applied Minerals, Inc. and its controlled subsidiary, Park Copper and Gold Mining Company Limited ("Park Copper"). The financial information related to Park Copper was consolidated into the Company's consolidated financial statements in 2010. In 1999 we acquired a 53% interest in the Park Copper Mining Company for \$72,825, which holds 100 acres of timber and mineral property in northern Idaho. At December 31, 2011, the investment in Park Copper was fully impaired.

#### Use of Estimates

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

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APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to Unaudited Condensed Consolidated Financial Statements

Cash and Cash Equivalents

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

Receivables

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

Management evaluates the collectability of receivable account balances to determine the allowance, if any. Management considers the other party's credit risk and financial condition, as well as current and projected economic and market conditions, in determining the amount of the allowance. Receivable balances are written off when management determines that the balance is uncollectable.

Property and Equipment

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

|   | Estimated Useful Life |
|---|-----------------------|
| Building and Building Improvements      | 20 – 40 years         |
| Mining equipment                        | 2 – 7 years           |
| Office and shop furniture and equipment | 3 – 7 years           |
| Vehicles                                | 5 years               |

Depreciation expense for the three months ended March 31, 2014 and 2013 totaled \$108,386 and \$78,798, respectively. The Company currently does not capitalize any amounts related to proven or probable reserves and therefore does not have any depletion expense.

Fair Value

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

Level 1 - quoted prices in active markets for identical assets and liabilities

Level 2 - observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 - significant unobservable inputs

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

|                        | Fair value measurement using inputs |         |         | Carrying amount |                   |
|------------------------|-------------------------------------|---------|---------|-----------------|-------------------|
|                        | Level 1                             | Level 2 | Level 3 | March 31, 2014  | December 31, 2013 |
| Financial instruments: |                                     |         |         |                 |                   |
| Warrant derivative     | \$225,000                           |         |         | \$225,000       | \$950,000         |
| PIK Note derivative    | \$480,375                           |         |         | \$480,375       | \$2,250,000       |

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, receivables, other current assets, and accounts payable and accrued expenses approximate their fair value at March 31, 2014 and December 31, 2013 based upon the short-term nature of the assets and liabilities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of notes payable approximate fair value. Estimated fair value of the PIK Notes payable approximates \$15.2 million at March 31, 2014. For the Company's warrant and PIK note derivative liabilities, fair value was estimated using a Monte Carlo Model using the following assumptions:

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APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to Unaudited Condensed Consolidated Financial Statements

| Warrant derivative liability                   | Fair Value Measurements Using Inputs |                   |   |  |
|--|--------------------------------------|-------------------|---|--|
|  | March 31, 2014                       | December 31, 2013 |   |  |
| Market price and estimated fair value of stock | \$0.72                               | \$ 1.10           |   |  |
| Exercise price                                 | \$1.93                               | \$ 1.93           |   |  |
| Term (years)                                   | 2.73                                 | 3                 |   |  |
| Dividend yield                                 | \$--                                 | \$ --             |   |  |
| Expected volatility *                          | 56.00%                               | 76.90             | % |  |
| Risk-free interest rate                        | 0.50 %                               | 0.78              | % |  |
|  |                                      |                   |   |  |
| PIK Note derivative liability                  | Fair Value Measurements Using Inputs |                   |   |  |
|  | March 31, 2014                       | December 31, 2013 |   |  |
| Market price and estimated fair value of stock | \$0.72                               | \$ 1.10           |   |  |
| Exercise price                                 | \$1.40                               | \$ 1.40           |   |  |
| Term (years)                                   | 9.33                                 | 9.58              |   |  |
| Dividend yield                                 | \$--                                 | --                |   |  |
| Expected volatility *                          | 56.00%                               | 76.90             | % |  |
| Risk-free interest rate                        | 2.63 %                               | 2.96              | % |  |

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

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 an impairment, the amount of the impairment is typically calculated using discounted expected future cash flows where observable fair values are not readily determinable. Considerable management judgment is necessary to estimate the fair value of assets. Assets to be disposed of are carried at the lower of their

financial statement carrying amount or fair value, less cost to sell.

Revenue Recognition

Revenue includes sales of halloysite clay and, commencing in June 2013, iron oxide, and is recognized when title passes to the buyer and when collectability is reasonably assured. Title passes to the buyer based on terms of the sales contract. Product pricing is determined based on related contractual arrangements with the Company's customers.

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Mining Exploration and Development Costs

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

Income taxes

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

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

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

The Company follows the provision of ASC Topic 740-10, "Income Taxes", relating to recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, 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, 2014, no amounts are included in the financial statements for unrecognized tax benefits.

Stock Options and Warrants

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

We determine the fair value of the stock-based compensation awards granted to non-employees as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either of (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete. The Company utilized the contractual term as the expected term.

Per share data

Loss per share for the three months ended March 31, 2014 and 2013, respectively, is calculated based on 94,692,696 and 93,681,139 weighted average outstanding shares of common stock.

At March 31, 2014 and 2013, respectively, the Company has outstanding options and warrants to purchase 22,283,046 and 21,706,267 shares of Company common stock, which were not included in the diluted computation as their effect would be anti-dilutive.

Environmental Matters

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

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

Based upon management's current assessment of its environmental responsibilities, the Company cannot reasonably estimate any reclamation or remediation liability that may occur in the future, if any.

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## NOTE 5 - STOCK AWARD PAYABLE

The stock award payable amount relates to 100,000 shares issuable, but not issued, under a 2007 employment agreement. The Company believes that it has good defenses against any demand to issue the shares, including the expiration of the time for instituting suit under the statute of limitations, but the Company is not able to remove the liability until released by the former employee or by judicial decree. As such, the Company recorded the stock grant as a liability and revalues it based on the quoted price of the Company's stock at the end of each period. The Company continues to explore its options to resolve this outstanding issue. The value of the outstanding stock awards at March 31, 2014 and December 31, 2013 were \$72,000 and \$110,000, respectively, thus resulting in a \$38,000 gain on the revaluation of the remaining stock award for the three months ended March 31, 2014. See Note 12 for Subsequent Event in May 2014.

## NOTE 6 - INCOME TAX

Income tax provisions or benefits for interim periods are computed based on the Company's estimated annual effective tax rate. Based on the Company's historical losses and its expectation of the continuation of losses for the foreseeable future, the Company has determined that it is more likely than not that deferred tax assets will not be realized and, accordingly, has provided a full valuation allowance as of March 31, 2014 and December 31, 2013.

## NOTE 7 - NOTES PAYABLE

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

|  | March 31,<br>2014 | December<br>31,<br>2013 |
|--|-------------------|-------------------------|
| Note payable for mining equipment, payable \$5,556 monthly, including interest (a)     | \$27,141          | \$42,927                |
| Note payable for mining equipment, payable \$950 monthly, including interest (b)       | 21,087            | 23,302                  |
| Note payable for mining equipment, payable \$6,060 monthly, including interest (c)     | 59,102            | 76,313                  |
| Note payable for mine site vehicle, payable \$628 monthly (d)                          | 26,391            | 28,276                  |
| Note payable for mining equipment, payable \$5,000 monthly, including interest (e)     | -0-               | 9,932                   |
| Note payable for mining equipment, payable \$1,632 monthly, including interest (f)     | 2,240             | 8,898                   |
| Note payable to an insurance company, payable \$19,139 monthly, including interest (g) | 76,055            | 132,576                 |
| Note payable to an insurance company, payable \$4,297 monthly, including interest (h)  | 17,077            | 29,767                  |
|  | 229,093           | 351,991                 |
| Less: Current Portion  | (198,663)         | (311,165)               |
| Notes Payable, Long-Term Portion   | \$30,430          | \$40,826                |

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

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

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

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

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

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

(g) The Company signed a note payable with an insurance company dated October 17, 2013 for directors' and officers' insurance, due in monthly installments, including interest at 3.15%. The note will mature on July 2014.

(h) The Company signed a note payable with an insurance company dated October 21, 2013 for liability insurance, due in monthly installments, including interest at 3.15%. The note will mature on July 2014.

The following is a schedule of the principal maturities on these notes as of March 31, 2014:

|                        |            |
|------------------------|------------|
| April 2014- March 2015 | \$ 198,663 |
| April 2015- March 2016 | 18,178     |
| April 2016- March 2017 | 8,482      |
| April 2017- March 2018 | 3,770      |
| Total Notes Payable    | \$ 229,093 |

During the three months ended March 31, 2014 and 2013, the Company's interest payments related to notes payables totaled \$3,745 and \$6,487 respectively.

NOTE 8 – CONVERTIBLE DEBT (PIK NOTES)

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

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

These Notes were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. In addition to the customary antidilution provisions the notes contain a down-round provision whereby the conversion price would be adjusted downward in the event that additional shares of the Company's common stock or securities exercisable, convertible or exchangeable for the Company's common stock were issued for cash consideration (e.g. a capital raise) at a price less than the conversion

price. Therefore, the estimated fair value of the conversion feature of \$2,055,000 (based on observable inputs) was bifurcated from the Notes and accounted for as a separate derivative liability, which resulted in a corresponding amount of debt discount on the Notes. The debt discount is being amortized using the effective interest method over the 10-year term of the Notes as Interest Expense, while the PIK Note Derivative is carried at fair value (using a Monte Carlo model) until the Notes are converted or otherwise extinguished. Any changes in fair value are recognized in earnings.

At March 31, 2014, the fair value of the PIK Note Derivative was estimated to be \$480,375, which includes the fair value of the additional PIK Notes derivative issued in February 2014, as mentioned above. Total gain from the revaluation of the original PIK Notes was \$1,792,500 for the first quarter ending March 31, 2014. In addition, the Company amortized \$26,331 of debt discount relating to the PIK Notes Payable, increasing the PIK Notes Payable carrying value to \$9,015,039 as of March 31, 2014.

#### NOTE 9 - STOCKHOLDERS' EQUITY

During the three months ended March 31, 2014, the Company issued a total of 121,092 shares of common stock valued at \$110,914 to directors and consultants as payments of fees.



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## NOTE 10 - OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK

Derivative Instruments - Warrants

The Company issued 5,000,000 warrants ("Samlyn warrants") in connection with the December 22, 2011 private placement of 10,000,000 shares of common stock. The strike price of these warrants was \$2.00 per share at the date of grant. These warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. In addition to the customary antidilution provisions the notes contain a down-round provision whereby the exercise price would be adjusted downward in the event that additional shares of the Company's common stock or securities exercisable, convertible or exchangeable for the Company's common stock were issued at a price less than the exercise price. Therefore, the fair value of these warrants (based on observable inputs) was recorded as a liability in the balance sheet until they are exercised or expire or are otherwise extinguished. During the first quarter of 2013, the Company issued 3,756,757 shares of its common stock for gross proceeds of \$5,560,000, which triggered a down-round adjustment of \$0.03 from \$2.00 to \$1.97 in the strike price of the Samlyn warrants at that time. As discussed in Note 8, during August 2013, the Company issued \$10,500,000 of 10% mandatorily convertible PIK Notes due 2023 ("Notes") in a private placement, which triggered a down-round adjustment of \$0.04 from \$1.97 to \$1.93 in the strike price of the Samlyn warrants.

During the three months ended March 31, 2014 and 2013, the Company recognized \$725,000 and \$495,000, respectively, of other income resulting from the decrease in the fair value of the warrant liability. As described in Note 4, this reduction mainly resulted from a lower stock price and a change in the volatility utilized by the Company.

Outstanding Stock Warrants

A summary of the status of the warrants outstanding and exercisable at March 31, 2014 is presented below:

| Warrants Outstanding and Exercisable |                    |   |                                 |
|--------------------------------------|--------------------|---|---------------------------------|
| Exercise Price                       | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price |
| \$ 0.75                              | 139,340            | 1.50 years                                  | \$ 0.75                         |
| \$ 0.78                              | 213,402            | 1.84 years                                  | \$ 0.78                         |
| \$ 0.80                              | 124,481            | 1.75 years                                  | \$ 0.80                         |
| \$ 1.00                              | 212,000            | 1.41 years                                  | \$ 1.00                         |
| \$ 1.15                              | 461,340            | 7.08 years                                  | \$ 1.15                         |
| \$ 1.93                              | 5,000,000          | 2.73 years                                  | \$ 1.93                         |
| \$ 2.00                              | 54,367             | 2.34 years                                  | \$ 2.00                         |
|                                      | 6,204,930          | 2.93 years                                  | \$ 1.75                         |

No warrants have been issued since 2011 and no warrants vested in 2013 or 2014; accordingly, no compensation expense has been recorded during 2013 and 2014. The intrinsic value of the outstanding warrants at March 31, 2014 was \$0.

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

uses the assumptions noted in the table below.

Outstanding Stock Options

On November 20, 2012, the shareholders of the Company approved the adoption of the Applied Minerals, Inc. 2012 Long-Term Incentive Plan (“LTIP”) and the Short-Term Incentive Plan (“STIP”) and the performance criteria used in setting performance goals for awards intended to be performance-based. Under the LTIP, 8,900,000 shares are authorized for issuance. The STIP does not refer to a particular number of shares under the LTIP, but would use the shares authorized in the LTIP for issuance under the STIP. The CEO, the CFO, 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.

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The significant assumptions relating to the valuation of the Company's options issued for the three months ended March 31, 2014 and 2013 were as follows:

|                         | 2014      | 2013         |
|-------------------------|-----------|--------------|
| Dividend Yield          | 0%        | 0%           |
| Expected Life           | 5.2 years | 5 - 10 years |
| Expected Volatility     | 58%       | 83%          |
| Risk Free Interest Rate | 1.60%     | 0.88%-1.66%  |

A summary of the status and changes of the options granted under stock option plans and other agreements for the first quarter of 2014 is as follows:

|                                    | March 31, 2014 |                                 |
|------------------------------------|----------------|---------------------------------|
|                                    | Shares         | Weighted Average Exercise Price |
| Outstanding at beginning of period | 15,878,116     | \$ 1.03                         |
| Issued                             | 200,000        | 0.83                            |
| Exercised                          | --             | --                              |
| Forfeited                          | --             | --                              |
| Outstanding at end of period       | 16,078,116     | \$ 1.03                         |

During the three months ended March 31, 2014, the Company granted 200,000 options to purchase the Company's common stock with a weighted average exercise price of \$0.83. All options granted during the period vest quarterly starting on March 31, 2014 and ending on December 31, 2014.

A summary of the status of the options outstanding at March 31, 2014 is presented below:

| Options Outstanding |   |                                 | Options Exercisable |                                 |
|---------------------|---|---------------------------------|---------------------|---------------------------------|
| Number              | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable  | Weighted Average Exercise Price |
| 7,358,277           | 4.69 years                                  | \$ 0.70                         | 7,358,277           | \$ 0.70                         |
| 3,405,134           | 7.44 years                                  | \$ 0.83                         | 3,255,134           | \$ 0.83                         |
| 60,000              | 2.25 years                                  | \$ 1.00                         | 60,000              | \$ 1.00                         |
| 300,000             | 9.39 years                                  | \$ 1.10                         | --                  | --                              |
| 300,000             | 9.24 years                                  | \$ 1.15                         | 58,333              | \$ 1.15                         |
| 100,000             | 3.84 years                                  | \$ 1.24                         | 100,000             | \$ 1.24                         |
| 115,000             | 6.99 years                                  | \$ 1.35                         | 106,667             | \$ 1.35                         |
| 125,000             | 3.84 years                                  | \$ 1.45                         | 125,000             | \$ 1.45                         |
| 330,000             | 7.70 years                                  | \$ 1.55                         | 221,667             | \$ 1.55                         |
| 7,645               | 3.84 years                                  | \$ 1.58                         | 7,645               | \$ 1.58                         |

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|            |            |         |            |         |
|------------|------------|---------|------------|---------|
| 3,077,060  | 8.65 years | \$ 1.66 | 3,077,060  | \$ 1.66 |
| 900,000    | 7.39 years | \$ 1.90 | 775,000    | \$ 1.90 |
| 16,078,116 | 6.41 years | \$ 1.03 | 15,144,783 | \$ 1.01 |

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At March 31, 2014, the total compensation expense of \$699,639 for unvested options is to be recognized over the next 18 months on a weighted average basis.

Compensation expense of \$214,850 has been recognized for vesting of options for the three months ended March 31, 2014. The aggregate intrinsic value of the outstanding options as March 31, 2014 was \$147,166.

## NOTE 11 - COMMITMENTS AND CONTINGENCIES

Commitments

The following table summarizes our contractual obligations as of March 31, 2014 that require us to make future cash payments:

|                                  | Payment due by period |              |             |             |           |
|----------------------------------|-----------------------|--------------|-------------|-------------|-----------|
|                                  | Total                 | < 1 year     | 1 - 3 years | 3 - 5 years | > 5 years |
| Contractual Obligations:         |                       |              |             |             |           |
| Rent obligations                 | \$ 103,438            | \$ 103,438   | --          | --          | --        |
| Capital Purchase Obligations (1) | 1,140,968             | 1,140,968    | --          | --          | --        |
| Total                            | \$ 1,244,406          | \$ 1,244,406 | --          | --          | --        |

(1) Capital purchase obligations represent commitments for the construction or purchase of property, plant and equipment. They were not recorded as liabilities on our condensed consolidated balance sheet as of March 31, 2014, as we had not yet received the related goods or taken title to the property.

Contingencies

The Company was named as the defendant in a lawsuit filed on April 18, 2014 in state District court in Salt Lake City, Utah. The plaintiff is Tekko Enterprises, Inc., which was hired in 2012 as project manager for the construction of a processing plant at the Company's Dragon Mine property and terminated in 2013 before the completion of the plant. The complaint seeks damages of \$346,000, unpaid amounts that the plaintiff claims it is entitled to under the project management agreement and two purchase orders. The Company intends to vigorously defend against the claims and to counterclaim. At this stage of the litigation, the possible loss or range of loss or the probability of an adverse conclusion cannot be estimated.

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

## NOTE 12 – SUBSEQUENT EVENT

During the second quarter of 2014, the Company received a release in writing from the former employee absolving the Company of the Stock Award Payable discussed in Note 5.



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

Forward-looking Statements

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

Overview

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

The Company owns the Dragon Mine, which has significant deposits of high quality halloysite clay and iron oxide. The 267-acre property is located 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 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, additives for polymer composites. The clays used in these advanced applications sell for significantly higher than those of the more traditional applications. Nanoclays have been used as additives to develop high performance plastic composites that cannot be developed 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 PhD-level consultants to research and develop the use of halloysite in 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's 3.3 million tons of natural iron oxide mineralized material are comprised primarily of goethite and hematite. Initially, the resource was considered to be utilizable as only an input to the steel-manufacturing process. Upon additional analysis the iron resource was found to be an advanced iron oxide due to its high Fe<sub>2</sub>O<sub>3</sub> content, exceptional chemical purity, fine grains and good dispersability, good tinting strength and color saturation, low color variation and a low content of heavy metals. Advanced 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 FDA-compliant pigments for the construction, concrete, paints and coatings, and plastics and rubber industries. Amiron 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 and as a catalyst for desulfurization. The Company has made its first sale of Amiron to a customer for use as a pigment.

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

#### Recent Business Developments

During the first quarter of 2014, the Company commissioned a 45,000 tpa mineral processing plant at its Dragon Mine property. This facility utilizes Hosokawa-Alpine technology that enhances the Company's ability to control the processing of its mineral resource for qualities such as particle size, moisture and purity. The plant was originally commissioned for halloysite clay, but the Company plans to initially utilize it for iron oxide and utilize its KDS machine for halloysite clay, while using a third party to surface treat the clay if required.

During the first quarter of 2014, the Company listed 600 acres of its Atlas Mine property for sale in Mullan, Idaho for \$3.9 million (see listing [www.kopke.us/atlasmine](http://www.kopke.us/atlasmine)). The property is located near Historic Mullan and Wallace, Idaho, the Hiawatha Bicycle Trail and Lookout Ski Resort, with various potential uses, including development, legacy landholdings, recreational, timber and mineral rights. The property includes the Historic Atlas Mine with patented and unpatented mining claims. Additional noncontiguous property is available in the region and will be listed separately in the future.

Between September 2013 and January 2014, the Company appointed three new Board members: Mario Concha, former president of the Chemical Division of Georgia Pacific, Inc.; Robert Betz, formerly of Cognis Corp., the North American division of Cognis GmbH, a \$4 billion worldwide supplier of specialty chemicals and nutritional ingredients, and Henkel AG & Company; and Ali Zamani, a former Principal at SLZ Capital Management, a New York-based asset management firm, and former senior investment professional at Goldman Sachs Investment Partners and Goldman Sachs Principal Strategies. Evan Stone resigned as a director on December 31, 2013; Mr. Stone, an attorney, resigned because he joined a new law firm as of January 1, 2014 and it is the policy of the new firm that its lawyers may not serve as directors of public companies. Mr. Stone had no disagreements with the Company or the Board of Directors. The foregoing changes expanded the Board to six directors and the number of independent directors to four.

In December 2013, the Company launched its Amiron line of iron oxide products focused particularly on the pigmentary and technical markets.

In December 2013, the Company entered into a distribution agreement with Mitsui Plastics, Inc. to market, sell, and distribute its Dragonite halloysite clay and Amiron iron oxide outside of North America.



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The Company announced that it entered into an agreement with OPF Enterprises, LLC ("OPF"), a leading ceramic consulting firm that focuses on ceramic materials and process development, to introduce Dragonite and Amiron to certain ceramic and iron oxide application markets for which it has particular expertise and customer relationships.

In October 2013, the Company issued an updated JORC - compliant report regarding the mineralization at the Dragon Mine property with respect to its clay and iron oxide resources.

In August 2013, the Company announced that it successfully raised \$10,500,000 of financing through the private placement of 10% Mandatorily Convertible PIK Notes due 2023 ("Notes"). The Notes have a strike price of \$1.40 per share and convert into 7,500,000 shares of the common stock of Applied Minerals, Inc. The purchasers of the Notes included one current shareholder and two new investors of the Company.

In June 2013, the Company sold its first 10 tons of iron oxide to a leading specialty chemicals company for use in the absorption and catalyst market.

In April 2013, the Company announced the signing of an agreement with Sigma-Aldrich Corporation (NASDAQ: SIAL), a leading Life Science and High Technology company, to market and distribute Dragonite to researchers worldwide through the Aldrich Materials Science initiative.

During the second and third quarters of 2013, the Company made some key personnel changes, including the appointment of an individual from a leading global specialty chemicals company to lead its Iron Oxide Business Unit and the hiring of a new Chief Technology Officer.

In January 2013, the Company sold, in a privately negotiated transaction, 3,756,757 shares of its common stock at \$1.48 per share for gross proceeds of \$5,560,000. No broker was used and no commission was paid as part of this transaction.

## Critical Accounting Policies and Estimates

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

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. In these financial statements, assets and liabilities involve extensive reliance on management's estimates. Actual results could differ from those estimates.

### Fair Value

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

Level 1 - quoted prices in active markets for identical assets and liabilities

Level 2 - observable inputs other than quoted prices in active markets for identical assets and liabilities

## Level 3 - significant unobservable inputs

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

|                        | Fair value measurement using inputs |           |         | Carrying amount |                   |
|------------------------|-------------------------------------|-----------|---------|-----------------|-------------------|
|                        | Level 1                             | Level 2   | Level 3 | March 31, 2014  | December 31, 2013 |
| Financial instruments: |                                     |           |         |                 |                   |
| Warrant derivative     |                                     | \$225,000 |         | \$225,000       | \$950,000         |
| PIK Note derivative    |                                     | \$480,375 |         | \$480,375       | \$2,250,000       |

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, receivables, other current assets, and accounts payable and accrued expenses approximate their fair value of the respective assets and liabilities at March 31, 2014 and December 31, 2013 based upon the short-term nature of the assets and liabilities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of notes payable approximate fair value. Estimated fair value of the PIK Notes payable approximates \$15.2 million at March 31, 2014. For the Company's warrant and PIK note derivative liabilities, fair value was estimated using a Monte Carlo Model using the following assumptions:

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| Warrant derivative liability                   | Fair Value Measurements Using Inputs |                   |   |
|--|--------------------------------------|-------------------|---|
|  | March 31, 2014                       | December 31, 2013 |   |
|  |                                      |                   |   |
| Market price and estimated fair value of stock | \$0.72                               | \$ 1.10           |   |
| Exercise price                                 | \$1.93                               | \$ 1.93           |   |
| Term (years)                                   | 2.73                                 | 3                 |   |
| Dividend yield                                 | \$--                                 | \$ --             |   |
| Expected volatility *                          | 56.00%                               | 76.90             | % |
| Risk-free interest rate                        | 0.50 %                               | 0.78              | % |

  

| PIK Note derivative liability                  | Fair Value Measurements Using Inputs |                   |   |
|--|--------------------------------------|-------------------|---|
|  | March 31, 2014                       | December 31, 2013 |   |
|  |                                      |                   |   |
| Market price and estimated fair value of stock | \$0.72                               | \$ 1.10           |   |
| Exercise price                                 | \$1.40                               | \$ 1.40           |   |
| Term (years)                                   | 9.33                                 | 9.58              |   |
| Dividend yield                                 | \$--                                 | --                |   |
| Expected volatility *                          | 56.00%                               | 76.90             | % |
| Risk-free interest rate                        | 2.63 %                               | 2.96              | % |

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

Impairment of Long-Lived Assets

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

Mining Exploration and Development Costs

Land and mining property are carried at cost. The Company expenses prospecting and mining exploration costs. At the point when a property is determined to have proven and probable reserves, subsequent development costs are capitalized. When these properties are developed and operations commence, capitalized costs will be charged to operations using the units-of-production method over proven and probable reserves. Upon abandonment or sale of a mineral property, all capitalized costs relating to the specific property are written off in the period abandoned or sold and a gain or loss is recognized. For all periods through March 31, 2014, all costs associated with the Company's mines, excluding original acquisition cost, have been expensed as the Company remains an exploration stage

company.

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Provision for Income Taxes

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

Stock Options and Warrants

The Company follows ASC 718 (Stock Compensation) and 505-50 (Equity-Based Payments to Non-Employees), which provide guidance in accounting for share-based awards exchanged for services rendered and requires companies to expense the estimated fair value of these awards over the requisite service period. With respect to equity based payments to non-employees, we determine the fair value of the stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either of (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete. The Company utilized the contractual term as the expected term.

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Results of Operations for the Three Months Ended March 31, 2014 as Compared to the Three Months Ended March 31, 2013

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 |                | Variance     |         |
|--|--------------------|----------------|--------------|---------|
|  | March 31,          | March 31,      | Amount       | %       |
|  | 2014               | 2013           |              |         |
| REVENUES   | \$11,014           | \$25,086       | \$(14,072 )  | (56 %)  |
| OPERATING (INCOME) EXPENSES:   |                    |                |              |         |
| Production costs   | 3,749              | 15,767         | (12,018 )    | (76 %)  |
| Exploration costs  | 1,197,156          | 1,367,612      | (170,456 )   | (12 %)  |
| General and administrative   | 1,254,016          | 2,145,423      | (891,407 )   | (42 %)  |
| Depreciation expense   | 108,386            | 78,798         | 29,588       | 38 %    |
| Total Operating Expenses   | 2,563,307          | 3,607,600      | (1,044,293 ) | (29 %)  |
| Operating Loss   | (2,552,293 )       | (3,582,514 )   | 1,030,221    | (29 %)  |
| OTHER INCOME (EXPENSE):  |                    |                |              |         |
| Interest expense, net, including amortization of deferred financing cost and debt discount | (300,167 )         | (4,933 )       | (295,234 )   | 5985 %  |
| (Loss) gain on revaluation of warrant derivative   | 725,000            | 495,000        | 230,000      | 46 %    |
| Gain (loss) on revaluation of stock award  | 38,000             | 14,000         | 24,000       | 171 %   |
| Gain(loss) on revaluation of PIK note derivative   | 1,792,500          | -0-            | 1,792,500    | 100 %   |
| Other income (expense)   | (60,265 )          | (444 )         | (59,821 )    | 13473 % |
| Total Other Income (Expense)   | 2,195,068          | 503,623        | 1,691,445    | 336 %   |
| Net Loss   | \$(357,225 )       | \$(3,078,891 ) | \$2,721,666  | (88 %)  |

Revenue for the three months ended March 31, 2014 was \$11,014, compared to \$25,086 generated during the same period in 2013. After selling its first iron oxide shipment last year to a leading specialty chemicals company for use in the absorption and catalyst market, the Company sold another 17,000 pounds during the first quarter of 2014 to another company specializing in paints, coatings, inks and specialty chemicals. Quarterly revenue may be unpredictable as we are in various stages of product development, ongoing trials and the building of stockpile levels. While the iron oxide market is more defined and developed than the halloysite market, we continue to explore various commercial opportunities in both areas.

Total operating expenses for the three months ending March 31, 2014 were \$2,563,307 compared to \$3,607,600 incurred during the same period in 2013, a decrease of \$1,044,293 or 29%. The decrease was due primarily to a \$190,107, or 14%, decrease in exploration costs and a \$891,407, or 42%, decrease in general and administrative costs.

Exploration costs incurred during the three months ended March 31, 2014 were \$1,197,156 compared to \$1,367,612 of costs incurred during the same period in 2013, a decrease of approximately \$170,456, or 12%. During the first quarter of 2013, the Company engaged in a drilling program totaling over \$235,000 that it completed during that quarter. This reduction in drilling expenses from the first quarter of 2013 to the first quarter of 2014 was slightly offset by additional payroll costs of miners and other workers hired during the second half of 2013 to help in the development of the mine and the new mill.

General and administrative expenses incurred during the three months ended March 31, 2014 totaled \$1,254,016 compared to \$2,145,423 of expense incurred during the same period in 2013, a decrease of \$891,407 or 42%. Stock compensation expense reduced by \$1,063,699 to \$214,850 because certain options issued to the CEO and other executives culminated vesting as of January 1, 2014 without any further option grants. This reduction was mainly offset by the following: a \$40,829 increase in travel relating to increased trips to the mine pursuant to the commissioning of our new plant; a \$26,438 increase in investor relations' expense relating to additional investor meetings during the first quarter of 2014; a \$39,434 increase in Board fees as the Company added three new Board members, while losing one because the Board member's new employer did not allow the Board member to serve on a public Board.

Net Loss for the three months ended March 31, 2014 was \$357,225, compared to \$3,078,891 incurred during the same period in 2013, a decrease of approximately \$2,721,666 or 88%. The decrease in the loss from exploration stage before discontinued operations was due primarily to a \$891,407 decrease in operating expenses (as previously described), and a \$1,691,445 increase in Other Income, mainly from the revaluation of derivatives.

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## LIQUIDITY AND CAPITAL RESOURCES

As the Company continues its commercialization efforts of halloysite clay and iron oxide, it may also require additional financing later in 2014 to fund its current operations as it has done in the past. The Company has a history of recurring losses from operations and use of cash in operating activities as it is still a development stage company. For the three months ended March 31, 2014, the Company's net loss was \$357,225 and cash used in operating activities was \$2,375,850. As of March 31, 2014, the Company has working capital of \$3,926,999 which may not be sufficient to support its current operations for the next twelve months based on its business plan without obtaining additional financing. Collectively, these factors raise substantial doubt about the Company's ability to continue as a going concern.

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

Cash used in operating activities during the three months ended March 31, 2014 was \$2,375,850 compared to \$2,646,730 of cash used during the same period in 2013. The \$270,880 decrease in cash used during the period was due primarily to additional drilling operations conducted during the first quarter of 2013 which did not recur during the first quarter of 2014, as discussed in Results of Operations.

Cash used in investing activities during the three months ended March 31, 2014 was \$315,708 compared to a use of \$402,986 during the same period in 2013. The Company incurred costs relating to the new mill, which was commissioned during the first quarter of 2014. As the new mill was commissioned, \$4,359,452 of costs were reclassified from Construction-in-Progress to either Buildings, Milling Equipment or Lab Equipment. The Company expects to finish the lab portion of the construction during the second quarter of 2014.

Cash used by financing activities during the three months ended March 31, 2014 was \$122,898 compared to \$5,423,115 of cash provided during the same period in 2013. In January 2013, the Company sold, in a privately negotiated transaction, 3,756,757 shares of its common stock at \$1.48 per share for gross proceeds of \$5,560,000.

## 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, 2014 that require us to make future cash payments:

|                                  | Payment due by period |              |             |             |           |
|----------------------------------|-----------------------|--------------|-------------|-------------|-----------|
|                                  | Total                 | < 1 year     | 1 - 3 years | 3 - 5 years | > 5 years |
| Contractual Obligations:         |                       |              |             |             |           |
| Rent obligations                 | \$ 103,438            | \$ 103,438   | --          | --          | --        |
| Capital Purchase Obligations (1) | 1,140,968             | 1,140,968    | --          | --          | --        |
| Total                            | \$ 1,244,406          | \$ 1,244,406 | --          | --          | --        |



(1) Capital purchase obligations represent commitments for the construction or purchase of property, plant and equipment. They were not recorded as liabilities on our consolidated balance sheet as of March 31, 2014, as we had not yet received the related goods or taken title to the property.

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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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company was named as the defendant in a lawsuit filed on April 18, 2014 in state District court in Salt Lake City, Utah. The plaintiff is Tekko Enterprises, Inc., which was hired in 2012 as project manager for the construction of a processing plant at the Company’s Dragon Mine property and terminated in 2013 before the completion of the plant. The complaint seeks damages of \$346,000, unpaid amounts that the plaintiff claims it is entitled to under the project management agreement and two purchase orders. The Company intends to vigorously defend against the claims and to counterclaim. At this stage of the litigation, the possible loss or range of loss or the probability of an adverse conclusion cannot be estimated.

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

ITEM 1A. RISK FACTORS.

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

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

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits.

The following exhibits are included in this report:

Exhibit

Number Description of Exhibits

|             |  |
|-------------|--|
| <u>31.1</u> | Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer |
| <u>31.2</u> | Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer |
| <u>32.1</u> | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer                     |
| <u>32.2</u> | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer                     |
| <u>95</u>   | Mine Safety Disclosures  |

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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 12, 2014 /s/ ANDRE ZEITOUN

By: Andre Zeitoun  
Chief Executive Officer

Dated: May 12, 2014 /s/ NAT KRISHNAMURTI

By: Nat Krishnamurti  
Chief Financial Officer