

Applied Minerals, Inc.
Form 10-Q
November 19, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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

(State or other jurisdiction of incorporation or organization)

82-0096527

(I. R. S. Employer Identification No.)

55 Washington Street - Suite 301, Brooklyn, NY

(Address of principal executive offices)

11201

(Zip Code)

(212) 226-4265

(Issuer's Telephone Number, Including Area Code)

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

Indicate by check mark 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller-reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

YES NO

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of November 14, 2018 was 175,513,549.

DOCUMENTS INCORPORATED BY REFERENCE: None.

Table of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Company)

THIRD QUARTER 2018 REPORT ON FORM 10-Q

TABLE OF CONTENTS

	Page(s)
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Consolidated Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheets as of September 30, 2018 (unaudited) and December 31, 2017</u>	<u>3</u>
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Stockholders' Deficit for the Nine Months Ended September 30, 2018 (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017 (unaudited)</u>	<u>6</u>
<u>Notes to the Consolidated Financial Statements (unaudited)</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>26</u>
<u>Item 4. Controls and Procedures</u>	<u>27</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>28</u>
<u>Item 1A. Risk Factors</u>	<u>28</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>28</u>

<u>Item 3. Defaults Upon Senior Securities</u>	<u>28</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>28</u>
<u>Item 5. Other Information</u>	<u>28</u>
<u>Item 6. Exhibits</u>	<u>29</u>
<u>Signatures</u>	<u>30</u>

Table of Contents**PART I. FINANCIAL INFORMATION****APPLIED MINERALS, INC.****(An Exploration Stage Mining Company)****CONSOLIDATED BALANCE SHEETS**

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,783,238	\$ 47,652
Accounts receivable	112,701	27,265
Deposits and prepaid expenses	40,052	205,922
Total Current Assets	3,935,991	280,839
Property and Equipment, net	1,862,310	2,802,391
Other Assets – Deposits	253,326	240,934
TOTAL ASSETS	\$ 6,051,627	\$ 3,324,164
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 631,458	\$ 963,609
PIK Note interest accrual	422,919	57,334
Current portion of notes payable	2,660	212,134
Total Current Liabilities	1,057,037	1,233,077
Long-Term Liabilities		
PIK Notes payable, net of debt discount and deferred financing cost of \$7,141,417 at September 30, 2018 and \$9,755,832 at December 31, 2017, respectively	36,467,964	33,244,605
PIK Note derivative liability	5,738,106	2,047,264
Deferred Rent	8,118	0
Total Long-Term Liabilities	42,214,188	35,291,869
TOTAL LIABILITIES	43,271,225	36,524,946
Stockholders' (Deficit)		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, none issued and outstanding	- 0 -	- 0 -

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

Common stock, \$0.001 par value, 400,000,000 shares authorized, 175,513,549 and 140,763,549 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	175,514	140,764
Additional paid-in capital	73,957,208	71,152,311
Accumulated deficit prior to the exploration stage	(20,009,496)	(20,009,496)
Accumulated deficit during the exploration stage	(91,342,824)	(84,484,361)
Total Stockholders' (Deficit)	(37,219,598)	(33,200,782)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	\$6,051,627	\$3,324,164

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

Table of Contents**APPLIED MINERALS, INC.****(An Exploration Stage Mining Company)****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUES	\$4,682,003	\$148,303	\$4,820,088	\$2,300,998
OPERATING EXPENSES:				
Production costs	581,072	412,713	937,614	2,125,007
Exploration costs	36,068	47,172	147,680	304,631
General and administrative	613,605	664,217	2,687,961	2,137,655
Depreciation expense	318,182	329,357	963,144	989,122
Total Operating Expenses	1,548,927	1,453,459	4,736,399	5,556,415
Operating Income (Loss)	3,133,076	(1,305,156)	83,689	(3,255,417)
OTHER INCOME (EXPENSE):				
Interest expense, net, including amortization of deferred financing cost and debt discount	(608,585)	(2,527,374)	(3,729,540)	(6,843,524)
Gain (loss) on revaluation of PIK Note derivative	3,021,500	(570,473)	(3,557,004)	1,066,368
Other income (expense), net	(9,433)	(4,064)	344,392	21,620
Total Other Income (Expense)	2,403,482	(3,101,911)	(6,942,152)	(5,755,536)
NET INCOME (LOSS)	\$5,536,558	\$(4,407,067)	\$(6,858,463)	\$(9,010,953)
Net Income Loss Per Share - Basic	\$0.03	\$(0.04)	\$(0.04)	\$(0.08)
Weighted Average Shares Outstanding - Basic	175,004,038	118,862,734	160,992,945	112,094,593
Net Income Loss Per Share - Diluted	\$0.03	\$(0.04)	\$(0.04)	\$(0.08)
Weighted Average Shares Outstanding - Diluted	193,795,646	118,862,734	160,992,945	112,094,593

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

Table of Contents**APPLIED MINERALS, INC.****(An Exploration Stage Mining Company)****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**

(Unaudited)

	Common Stock			Accumulated	Accumulated	Total
	Shares	Amount	Additional Paid-In Capital	Deficit Prior to Exploration Stage	Deficit During Exploration Stage	
Balance, December 31, 2017	140,763,549	\$ 140,764	\$ 71,152,311	\$(20,009,496)	\$(84,484,361)	\$(33,200,782)
Shares issued for consulting services	1,500,000	1,500	58,500	- 0 -	- 0 -	60,000
Shares and warrants issued in private placements	31,250,000	31,250	1,703,750	- 0 -	- 0 -	1,735,000
Shares issued for warrant exercise	2,000,000	2,000	78,000	- 0 -	- 0 -	80,000
Stock option compensation expense	- 0 -	- 0 -	964,647	- 0 -	- 0 -	964,647
Net Loss	- 0 -	- 0 -	- 0 -	- 0 -	(6,858,463)	(6,858,463)
Balance, September 30, 2018	175,513,549	\$ 175,514	\$ 73,957,208	\$(20,009,496)	\$(91,342,824)	\$(37,219,598)

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

Table of Contents**APPLIED MINERALS, INC.****(An Exploration Stage Mining Company)****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	For the Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net loss	\$ (6,858,463)	\$ (9,010,953)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation	963,144	989,122
Amortization of discount - PIK Notes	2,546,162	3,784,911
Amortization of deferred financing costs	68,253	5,625
Accrued interest on PIK Notes	1,108,367	2,704,837
Stock issued for consulting services	60,000	- 0 -
Stock based compensation expense	964,647	145,887
(Gain) loss on revaluation of PIK Note derivative	3,557,004	(1,066,368)
Other	- 0 -	1,000
Change in operating assets and liabilities:		
Accounts receivable	(85,436)	304,424
Other current receivables	- 0 -	16,802
Deposits and prepaids	153,478	296,097
Accounts payable and accrued liabilities	(324,033)	413,721
Net cash provided by (used in) operating activities	2,153,123	(1,414,895)
Cash Flows From Investing Activities		
Purchases of property and equipment	(23,063)	(43,753)
Net cash used in investing activities	(23,063)	(43,753)
Cash Flows From Financing Activities:		
Payments on notes payable	(209,474)	(230,336)
Proceeds from sale of common stock	1,735,000	910,000
Proceeds from exercise of options or warrants	80,000	- 0 -
Net cash provided by financing activities	1,605,526	679,664
Net change in cash and cash equivalents	3,735,586	(778,984)
Cash and cash equivalents at beginning of period	47,652	1,049,880
Cash and cash equivalents at end of period	\$ 3,783,238	\$ 270,896

Supplemental disclosure of cash flow information:

Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 6,761	\$ 5,301

Supplemental disclosure of noncash financing activity:

Accrued PIK interest paid through issuance of PIK Notes	608,944	\$ 2,704,837
---	---------	--------------

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

Table of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Consolidated Financial Statements

NOTE 1- ORGANIZATION AND DESCRIPTION OF BUSINESS

Applied Minerals, Inc. (the “Company” or “Applied Minerals” or “we” or “us”) (OTCQB: AMNL) owns the Dragon Mine in central Utah. From the mine we extract, process, or have processed by a third party, halloysite clay and iron oxide for sale to a range of end markets. We market the minerals directly and through distributors and also under a profit-sharing arrangement with the Kaolin business unit of BASF Corp. (“BASF”).

We also engage in research and development and frequently work collaboratively with potential customers, consultants, distributors, and BASF to process and enhance our halloysite clay products to improve the performance of existing and new products.

Our halloysite clay, which we market under the DRAGONITE™ trade name, is an aluminosilicate mineral with a hollow tubular shape. DRAGONITE can utilize halloysite’s morphology, high surface area, and reactivity to add significant functionality to a number of applications such as, but not limited to, reinforcement additives for polymer composites, flame retardant additives for polymers, catalysts, controlled release carriers for paints and coatings, strength reinforcement additives for cement, concrete, mortars and grouts, advanced ceramics, rheology additives for drilling fluids, environmental remediation media, and carriers of agricultural agents. The Company sells its halloysite products at negotiated prices.

Our iron oxide, which we market under the AMIRON™ trade name, is a high purity product. We have sold it on an exclusive basis to one customer at a negotiated price for use in an oilfield application and we are continuing to offer AMIRON to that customer on an exclusive basis. Currently, we are not selling AMIRON™ to customers on a continuing basis for use in any other application.

The Company is classified as an “exploration stage” company for purposes of Industry Guide 7 of the U.S. Securities and Exchange Commission (“SEC”) Under Industry Guide 7, companies engaged in significant mining operations are classified into three categories, referred to as “stages” - exploration, development, and production. Exploration stage includes all companies that do not have established reserves in accordance with Industry Guide 7. Such companies are deemed to be “in the search for mineral deposits.” Notwithstanding the nature and extent of development-type or

production-type activities that have been undertaken or completed, a company cannot be classified as a development or production stage company unless it has established reserves in accordance with Industry Guide 7.

In 2017, we entered into a tolling agreement with BASF under which BASF will process the Company's halloysite product, utilizing a water-based system. The BASF system is capable of eliminating impurities, such as iron oxide, and chemically treating the surface of halloysite to achieve desired functionality.

We have a mineral processing plant with a capacity of up to 45,000 tons of mineralization per annum for certain applications. The plant is currently dedicated to processing its halloysite products.

Additionally, the Company has a second processing facility with a capacity of up to 10,000 tons per annum. This smaller plant is currently dedicated to processing the Company's halloysite. This smaller plant processes halloysite using a dry-based, micronizing system. This dry-based system does not eliminate impurities, such as iron oxide, as effectively as a water-based system but is useful in situations where the removal of impurities is not necessary.

For the foreseeable future, the Company expects to utilize a commercial-sized crusher to process its iron oxide to satisfy any sales of its AMIRON product.

For the nine months ended September 30, 2018, the Company's largest customer accounted for approximately 94% of total revenue and at September 30, 2018 amounts owed by the Company's two largest customers represented 68% of accounts receivable.

Exploration Agreement

On December 22, 2017, the Company and Continental Mineral Claims, Inc. ("CMC") entered into an Exploration Agreement with Option to Purchase ("Agreement"). The Company granted to CMC the exclusive right and option to enter upon and conduct mineral exploration activities (the "Exploration License") for Metallic Minerals on the Company's Dragon Mine mine site in Utah (the "Mining Claims"). Metallic Minerals are defined to include minerals with a high specific gravity and metallic luster, such as gold, silver, lead, copper, zinc, molybdenum, titanium, tungsten, uranium, tin, iron, etc., but shall exclude any such Metallic Minerals that are intermingled within any economically-recoverable, non-metallic mineral deposits located at or above an elevation of 5,590 feet above sea level. Non-metallic minerals include clay and iron oxide, the minerals mined by the Company. The Company believes that all economic recoverable non-metallic mineral deposits are well above 5,590 feet above sea level. The Exploration License is for a period of ten years.

In consideration of the Exploration License CMC has paid the Company \$350,000 and will pay it \$150,000 on or before the first anniversary of the Exploration License, \$250,000 on or before each subsequent anniversary during the

Exploration License term following the first anniversary of the Effective Date of this Agreement, unless the Exploration License is terminated earlier by CMC by exercising the option or failing to make the required payment for the Exploration License.

Table of Contents

CMC may exercise the option at any time during the Exploration License term. Upon exercise of the Option and the completion of the closing, CMC shall acquire 100% of the Metallic Rights within the Mining Claims from the Company, subject to the terms and conditions of the Agreement.

The consideration to be paid by CMC to the Company after exercising the option for the acquisition of the Metallic Rights shall be payable as follows: \$3,000,000; and, CMC shall grant to the Company a five percent (5%) Net Profits Interest (“NPI”) royalty over the Metallic Minerals produced from the Mining Claims. The NPI royalty shall be initially capped at \$20,000,000 (the “NPI Cap”). The NPI Cap shall be subject to reduction in the event the Company elects to take the Share Contribution, as set forth below.

Upon exercise of the option, the Company shall retain the all rights and title to (1) the surface interest (with exception of those rights associated with the Metallic Rights), and (2) all non-metallic minerals (expressly including all industrial minerals including clays and iron oxides).

It is anticipated that CMC will acquire rights similar to the Metallic Rights with respect to contiguous and nearby properties and such rights will be contributed to a new company formed or designated by CMC to own and operate CMC’s Tintic District project, which would involve the Metallic rights and similar rights regarding adjacent or nearby properties (“PubCo”) that intends to go public.

Table of Contents

The Company shall have the right, at its sole election, to convert a portion of its NPI royalty interest into \$2,000,000 worth of shares in PubCo up to a maximum of Two Percent (2%) net value of PubCo (the “Share Contribution”), through a reduction of the NPI Cap. The Company shall make the determination whether to take the Share Contribution or not, and so notify CMC, within ninety (90) days, of the completion (and delivery to the Company) of a feasibility study by CMC for the Tintic District project. If the Company elects not to take the Share Contribution, the Company’s NPI royalty shall remain unchanged, including the NPI Cap, which will remain at \$20,000,000.

The Agreement contains protections in favor of the Company against unreasonable interference of its current and future mining operations by CMC. CMC may not do anything that may, at the Company’s determination, adversely impact the Company’s Mining Operations. “Mining Operations” shall mean the activities incident to mineral extraction, permitting, and any operations by CMC or the Company relating to the removal of minerals, respectively, that are or may reasonably be conducted on the Mining Claims, including the exploration for, and development, active mining, removing, producing and selling of any minerals, including the Metallic Minerals. The Agreement states that the parties understand that the Company is willing to enter into the Agreement only if it is assured that CMC will not have any right to unreasonably interfere with the Company’s current mining operations and possible future Mining Operations on the Mining Claims.

There are no assurances that CMC will exercise its option to purchase 100% of the Metallic Rights.

NOTE 2 - LIQUIDITY AND BASIS OF PRESENTATION

The Company has a history of recurring losses from operations and the use of cash in operating activities. For the nine months ended September 30, 2018, the Company’s net loss was \$6,858,463 and cash used in operating activities was \$2,153,123. As of September 30, 2018, the Company had current assets of \$3,935,991 and current liabilities of \$1,057,037 of which \$422,919 was accrued PIK Note interest likely to be paid in additional PIK Notes. The Company’s current liabilities also include (i) \$157,040 of payables to a compounder for which it has agreed to satisfy in halloysite product and (ii) \$132,635 of disputed accrued expenses for which the Company believes it has a statute of limitations defense.

Based on the Company’s current cash usage expectations, management believes it has sufficient liquidity to fund its operations through November 19, 2019.

NOTE 3- BASIS OF REPORTING AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements of Applied Minerals, Inc. have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, these interim unaudited consolidated financial statements contain all of the adjustments of a normal and recurring nature which are considered necessary for a fair presentation of the financial position of the Company and the results of its operations and cash flows for the periods presented. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the operating results for the entire year. These financial statements should be read in conjunction with the financial statements and related disclosures for the year ended December 31, 2017, included in the Annual Report of Applied Minerals, Inc. on Form 10-K/A filed with the SEC on August 14, 2018.

The accompanying interim unaudited consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes. The Company’s significant accounting policies and estimates remain unchanged from those detailed in the Company’s Annual Report on Form 10-K/A for the year ended December 31, 2017.

Table of Contents

Exploration-Stage Company

Effective January 1, 2009, the Company was, and still is, classified as an exploration company because the existence of proven or probable reserves at the Company's Dragon Mine property have not been demonstrated and no significant revenue has been earned from the mine. Under the SEC's Industry Guide 7, a mining company is considered an exploration stage company until it has declared mineral reserves determined in accordance with the guide and staff interpretations thereof.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Applied Minerals, Inc. and its inactive subsidiary, which holds 100 acres of timber and mineral property in northern Idaho.

Use of Estimates

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

Cash and Cash Equivalents

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

Receivables

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

Management evaluates the collectability of receivable account balances to determine the allowance, if any. Management considers the other party's credit risk and financial condition, as well as current and projected economic and market conditions, in determining the amount of the allowance. Receivable balances are written off when management determines that the balance is uncollectable. No allowance was required at September 30, 2018 and December 31, 2017.

Property and Equipment

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

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

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 that there is 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. The Company has determined that there was no impairment of its long-lived assets as of September 30, 2018 and December 31, 2017.

Table of Contents

Revenue Recognition

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

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance on revenue recognition, which provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes most existing revenue recognition guidance. The main principle under this guidance is that an entity should recognize revenue at the amount it expects to be entitled to in exchange for the transfer of goods or services to customers. The Company identified the predominant changes to its accounting policies resulting from the application of this guidance and quantified the impact on its consolidated financial statements. The cumulative effect of the initial adoption of this guidance did not have any significant impact on the Company's consolidated financial statements as the Company did not have any significant customer contracts in place at December 31, 2017. The Company adopted this guidance on January 1, 2018. For 2018, revenue is recognized when control over the product transfers to the customer.

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.

Table of Contents

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

Authoritative guidance provides that the tax effects from an uncertain tax position taken or expected to be taken in a tax return 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 December 31, 2017 no benefit from uncertain tax positions was recognized in our financial statements. The Company has elected to classify interest and/or penalties related to income tax matters in income tax expense.

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. The Company instituted a formal long-term and short-term incentive plan on November 20, 2012, which was approved by its shareholders. Prior to that date, we did not have a formal equity plan, but all equity grants, including stock options and warrants, were approved by our 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. Beginning in the quarter ended June 30, 2013 the Company began using the simplified method to determine the expected term for any options granted because the Company did not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. The Company previously utilized the contractual term as the expected term.

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.

The Company has posted a cash bond in the amount of \$199,000 required by the Utah Department of Oil, Gas and Minerals to cover estimated reclamation costs related the Company large mining permit for its Dragon Mine property.

Recent Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance on revenue recognition, which provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes most existing revenue recognition guidance. The main principle under this guidance is that an entity should recognize revenue at the amount it expects to be entitled to in exchange for the transfer of goods or services to customers. The Company adopted this guidance on January 1, 2018 using the modified retrospective method. The Company has elected to apply this initial application of the standard only to contracts that are not completed at the date of initial application. The cumulative effect of initially applying the new revenue standard would be applied as an adjustment to the opening balance of retained earnings. The cumulative effect of the initial adoption of this guidance did not have any significant impact on the Company's consolidated financial statements as the Company did not have any significant customer contracts in place at December 31, 2017 and therefore the Company did not record a cumulative catch-up to deferred revenue and accumulated deficit upon adoption of the new standard on January 1, 2018.

In February 2016, the FASB issued ASU 2016-02 ("Topic 842") new accounting guidance for leases, which supersedes previous lease guidance. Under this guidance, for all leases with terms in excess of one year, including operating leases, the Company will be required to recognize on its balance sheet a lease liability and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance retains a distinction between finance leases and operating leases and the classification criteria is substantially similar to previous guidance. Additionally, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed. The guidance is effective for the Company beginning January 1, 2019. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. This ASU clarifies the recognition, measurement, and effect on earnings per share of certain freestanding equity-classified financial instruments that include down round features affect entities that present earnings per share in accordance with the guidance in Topic 260, Earnings Per Share. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. This new guidance will be effective for annual reporting periods beginning after December 15, 2018, including interim periods within those periods. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In June 2018, the FASB issued ASU No. 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting. ASU 2018-07 is intended to reduce the cost and complexity and to improve financial reporting for non-employee share-based payments. The ASU expands the scope of Topic 718, Compensation-Stock Compensation (which currently only includes share-based payments to employees), to include share-based payments issued to non-employees for goods or services. Consequently, the accounting for share-based payments to non-employees and employees will be substantially aligned. This update is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. Upon transition, entities will remeasure unsettled liability-classified awards and any unmeasured equity-classified awards for non-employees at fair value as of the adoption date. A cumulative-effect adjustment to retained earnings will be required as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact ASU 2018-07 will have on its consolidated financial statements and footnote disclosures thereto.

Table of Contents**NOTE 4– PROPERTY AND EQUIPMENT**

The following is a summary of property, plant, and equipment – at cost, less accumulated depreciation:

	September 30, 2018	December 31, 2017
Land	\$500,000	\$500,000
Land improvements	171,122	171,122
Buildings	3,129,519	3,129,519
Mining equipment	1,784,115	1,784,115
Milling equipment	2,864,789	2,841,726
Laboratory equipment	607,716	607,716
Office equipment	70,529	70,529
Vehicles	150,810	150,810
	9,278,600	9,255,537
Less: Accumulated depreciation	(7,416,290)	(6,453,146)
Total	\$1,862,310	\$2,802,391

Depreciation expense for the three months ended September 30, 2018 and 2017 totaled \$318,182, and \$329,357, respectively, and for the nine months ended September 30, 2018 and 2017 totaled \$963,144 and \$989,122, respectively.

NOTE 5– FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

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

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

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

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

Liabilities measured at fair value on a recurring basis are summarized as follows at September 30, 2018:

Fair value measurement
using inputs

Level 1	Level 2	Level 3
---------	---------	---------

Financial instruments:

Series 2023 Note Derivative	\$- 0 -	\$- 0 -	\$502,678
Series A Note Derivative	\$- 0 -	\$- 0 -	\$5,235,428

The following table summarizes the activity during the nine months ended September 2018 and 2017 for financial instruments at fair value using Level 3:

Balance at December 31, 2017	\$2,047,264	Balance at December 31, 2016	\$2,176,552
Issuance of additional Series 2023 Notes	27,858	Issuance of additional Series 2023 Notes	31,990
Issuance of additional Series A Notes	105,980	Issuance of additional Series A Notes	- 0 -
Net unrealized (gain) loss included in operations	3,557,004	Net unrealized (gain) loss included in operations	(1,066,368)
Balance at September 30, 2018	\$5,738,106	Balance at September 30, 2017	\$1,142,174

Table of Contents

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, receivables, and accounts payable and accrued expenses approximate their fair value at September 30, 2018 and December 31, 2017 based upon the short-term nature of the assets and liabilities. Based on borrowing rates currently available to the Company for loans with similar terms, and the remaining short-term period outstanding, the carrying value of notes payable other than PIK notes approximate fair value. The estimated fair value of the PIK Notes Payable was \$13,596,790 and \$11,395,208 at September 30, 2018 and December 31, 2017 (Level 3), respectively.

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

Series 2023 Note derivative liability	Fair Value Measurements Using Inputs	
	September 30, 2018	December 31, 2017
Market price and estimated fair value of stock	\$0.11	\$ 0.05
Exercise price (1)	\$0.59	\$ 0.59
Term (years)	4.83	5.58
Dividend yield	- 0 -	- 0 -
Expected volatility	135.0%	115.3 %
Risk-free interest rate	2.94 %	2.24 %

(1) Exercise price is reflective of amended Series 2023 Notes issued in December 2017 as discussed in Note 8.

Series A Note derivative liability	Fair Value Measurements Using Inputs	
	September 30, 2018	December 31, 2017
Market price and estimated fair value of stock	\$0.11	\$ 0.05
Exercise price (1)	\$0.40	\$ 0.40
Term (years)	4.83	5.58
Dividend yield	- 0 -	- 0 -
Expected volatility	135.0%	115.3 %
Risk-free interest rate	2.94 %	2.24 %

(1) Exercise price is reflective of amended Series A Notes issued in December 2017 as discussed in Note 7.

NOTE 6 - NOTES AND LEASES PAYABLE

Notes payable at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Note payable for equipment, payable \$1,339 monthly, including interest (a)	\$ 2,660	\$13,073
Note payable to insurance companies, payable \$5,045 - \$17,959 monthly, (b) and (c)	- 0 - 2,660	199,061 212,134
Less: Current Portion	(2,660)	(212,134)
Notes Payable, Long-Term Portion	\$ - 0 -	\$- 0 -

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

(b) The Company signed a note payable with an insurance company dated October 17, 2016 for liability insurance, payable in monthly installments, including interest ranging from 2.6% - 4.15%

(c) The Company signed a note payable with an insurance company dated October 17, 2017 for liability insurance, payable in monthly installments, including interest ranging from 3.1% - 5.78%

During the three months ended September 30, 2018 and 2017, the Company's interest payments totaled \$555 and \$2,558, respectively. During the nine months ended September 30, 2018 and 2017, the Company's interest payments totaled \$6,761 and \$5,301, respectively.

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

The Company raised \$23 million of financing through the issuance of two series of Paid-In-Kind (“PIK”)-Election Convertible Notes in 2013 (“Series 2023 Notes”) and 2014 (“Series A Notes”). The original terms of the Series A Notes included among other things: (i) a maturity of November 1, 2018 with an option to extend to November 1, 2019, (ii) a stated interest rate of 10% paid semi-annually and (iii) a conversion price of \$0.90, adjusted downward based on an anti-dilution provision. The original terms of the Series 2023 Notes included among other things: (i) a maturity of August 1, 2023, (ii) a stated interest rate of 10% paid semi-annually and (iii) a conversion price of \$1.40, adjusted downward based on an anti-dilution provision. On December 14, 2017, an amendment agreement, entered into between the Company and the holders of the Series A Notes and Series 2023 Notes, went into effect. The agreement resulted in changes to certain terms of the Series A and Series 2023 Notes. The key terms of the Series A and Series 2023 Notes, as amended, are highlighted in the table below:

Key Terms	Series 2023 Notes	Series A Notes
Inception Date	08/01/2013	11/03/2014
Cash Received	\$10,500,000	\$12,500,000
Principal (Initial Liability)	\$10,500,000	\$19,848,486
Maturity (Term)	Matures on August 1, 2023, but convertible into shares of the Company’s common stock at the discretion of the holder or by the Company based on the market price of the Company’s stock;	Matures on May 1, 2023 but extends to August 1, 2023 if the Series 2023 Notes are still outstanding. Convertible into shares of the Company’s common stock at the discretion of the holder or by the Company based on the market price of the Company’s stock;
Exercise Price	\$0.59, adjusted downward based on anti-dilution provisions/downround protection	\$0.40, adjusted downward based on anti-dilution provisions/down-round protection;
Stated Interest	10% per annum through December 14, 2017, 3% per annum thereafter, due semiannually;	10% per annum through December 14, 2017, 3% per annum thereafter, due semiannually;
Derivative Liability	\$2,055,000 established at inception due to the existence of	\$9,212,285 established at inception due to existence of

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

down-round protection; revalued every quarter using Monte Carlo model	down-round protection; revalued every quarter using a Monte Carlo model
---	---

As of September 30, 2018, the liability components of the PIK Notes on the Company's balance sheet are listed in the following table:

	Series 2023 Notes	Series A Notes	Total
PIK Note Payable, Gross	\$ 16,394,688	\$ 27,214,693	\$43,609,381
Less: Discount	(1,427,737)	(5,266,239)	(6,693,976)
Less: Deferred Financing Cost	(191,994)	(255,447)	(447,441)
PIK Note Payable, Net	\$ 14,774,957	\$ 21,693,007	\$36,467,964
PIK Note Derivative Liability	\$ 502,678	\$ 5,235,428	\$5,738,106

As of December 31, 2017, the liability components of the PIK Notes on the Company's balance sheet are listed in the following table:

	Series 2023 Notes	Series A Notes	Total
PIK Note Payable, Gross	\$ 16,090,721	\$ 26,909,716	\$43,000,437
Less: Discount	(1,538,299)	(7,701,839)	(9,240,138)
Less: Deferred Financing Cost	(221,280)	(294,414)	(515,694)
PIK Note Payable, Net	\$ 14,331,142	\$ 18,913,463	\$33,244,605
PIK Note Derivative Liability	\$ 163,634	\$ 1,883,630	\$2,047,264

Series A Notes (Amended)

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

The original terms of the Series A Notes included among other things: (i) a maturity of November 1, 2018 with an option to extend to November 1, 2019, (ii) a stated interest rate of 10% paid semi-annually and (iii) a conversion price of \$0.90, adjusted downward based on an anti-dilution provision.

Table of Contents

At September 30, 2018, the fair value of the Series A Note Derivative was estimated to be \$5,235,428. During the three and nine months ended September 30, 2018, the Company amortized \$234,911 and \$2,474,567, respectively of debt discount and deferred financing cost relating to the Series A Notes Payable and issued additional PIK Notes of \$304,977 in lieu of cash interest payments, increasing the net carrying value of the Series A Notes Payable to \$21,693,007 at September 30, 2018.

At December 31, 2017, the fair value of the Series A Note Derivative was estimated to be \$1,883,630, which includes the value of the derivative related to the additional PIK Notes issued in May and November 2017 for the semi-annual interest payments due and the additional notes issued in December, 2017. During the year ended December 31, 2017, the Company amortized \$5,808,294 of debt discount and deferred financing cost relating to the Series A Notes Payable and issued additional PIK Notes in lieu of interest payments of \$2,797,836, increasing the net carrying value of the Series A Notes Payable to \$18,913,463 at December 31, 2017.

As of September 30, 2018, the Company was in compliance with the covenants of the Series A Notes.

Series 2023 Notes (Amended)

In August 2013, the Company received \$10,500,000 of financing through the private placement of 10% mandatory convertible Notes due 2023 ("Series 2023 Notes"). The principal amount of the Notes is due on maturity. The Company can elect to pay semi-annual interest on the Series 2023 Notes with additional PIK Notes containing the same terms as the Series 2023 Notes, except interest will accrue from issuance of such notes. The Company can also elect to pay interest in cash. In February, 2017 and August, 2017, the Company issued \$703,550 and \$738,728, respectively, in additional Series 2023 Notes to the holders to pay the semi-annual interest. Additionally, on December 14, 2017, the Company issued \$577,439 of additional 2023 Notes, which represented the accrued interest of the Series 2023 Notes on the day on which the terms of the Series 2023 Notes were effectively amended.

The original terms of the Series 2023 Notes included among other things: (i) a maturity of August 1, 2023, (ii) a stated interest rate of 10% paid semi-annually and (iii) a conversion price of \$1.40, adjusted downward based on an anti-dilution provision.

At September 30, 2018, the fair value of the Series 2023 Note Derivative was estimated to be \$502,678, which includes the value of the derivative related to additional PIK Notes issued in February and August 2018. During the three and nine months ended September 30, 2018, the Company amortized \$35,566 and \$139,848, respectively of debt discount and deferred financing cost relating to the Series 2023 Notes Payable and issued additional PIK Notes of \$303,967 in lieu of cash interest payments, increasing the net carrying value of the Series 2023 Notes Payable to \$14,774,957 at September 30, 2018.

At December 31, 2017, the fair value of the Series 2023 Note Derivative was estimated to be \$163,634, which includes the value of the derivative related to additional PIK Notes issued in February and August 2016 for the semi-annual interest payments due and the additional notes issued in December, 2017. During the year ended December 31, 2017, the Company amortized \$200,360 of debt discount and deferred financing cost relating to the Series 2023 Notes Payable and issued additional PIK Notes of \$2,019,717 in lieu of cash interest payments, increasing the net carrying value of the Series 2023 Notes Payable to \$14,331,142 at December 31, 2017. As part of the amendment agreement, the holders of the Series 2023 Notes received warrants to purchase 3,720,000 million shares of common stock at \$0.10 per share. The Black Scholes value of these warrants totaled \$224,290.

As of September 30, 2018, the Company was in compliance with the covenants of the Series 2023 Notes.

NOTE 8– STOCKHOLDERS’ EQUITY

Preferred Stock

The Company is authorized to issue 10,000,000 shares of noncumulative, non-voting, nonconvertible preferred stock, \$0.001 par value per share. At September 30, 2018 and December 31, 2017, no shares of preferred stock were outstanding.

Common Stock

On December 7, 2017, stockholders of the Company approved to increase the authorized shares of common stock from 250,000,000 to 400,000,000 shares, \$0.001 par value per share. At September 30, 2018 and December 31, 2017, 175,513,549 and 140,763,549 shares were issued and outstanding, respectively.

2018

During the nine months ended September 30, 2018 the Company issued (i) 1,500,000 shares of common stock at a price of \$0.04 per share to a consultant for investor relation services to be performed, (ii) 17,375,000 shares of common stock at a price of \$0.04 per share, (iii) 3,000,000 shares of common stock at a price of \$0.05 per share, (iv) 1,000,000 shares of common stock at a price of \$0.10 per share, (v) 2,000,000 shares of common stock at a price of \$0.04 per share upon the exercise of a warrant to purchase shares of common stock, and (vi) 9,875,000 units, (one unit consisting of one share of common stock and one warrant to purchase one share of common stock at a price of \$0.15) at a price of \$0.08 per unit.

2017

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

During 2017, the Company issued: (i) 250,000 shares of common stock, at a price of \$0.36 per share, to directors; (ii) 26,500,000 units, (one unit consisting of one share of common stock and one warrant to purchase 0.25 shares of common stock at a price of \$0.04 per unit; (iii) 2,275,000 units, at a price of \$0.04 per unit, as payment for fees associated with a private placement of stock and (iv) 3,125,000 shares of common stock, at a price of \$0.04 per share, upon the exercise of warrants to purchase common stock.

Table of Contents**NOTE 9– OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK**Outstanding Stock Warrants

A summary of the status and changes of the warrants issued for the nine months ended September 30, 2018:

	Shares Issuable upon Exercise of Outstanding Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2018	18,813,373	\$ 0.14
Issued	9,875,000	\$ 0.15
Exercised	(2,000,000)	\$ 0.04
Forfeited	—	—
Outstanding at September 30, 2018	26,688,373	\$ 0.15

A summary of the status of the warrants outstanding and exercisable at September 30, 2018 is presented below:

Exercise Price	Warrants Outstanding and Exercisable Shares Issuable upon Exercise of	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
\$ 1.15	461,340	2.6	\$ 1.15
\$ 0.25	3,283,283	3.8	\$ 0.25
\$ 0.04	2,068,750	4.1	\$ 0.04
\$ 0.10	11,000,000	4.3	\$ 0.10
\$ 0.15	9,875,000	2.8	\$ 0.15
	26,688,373	3.6	\$ 0.15

The aggregate intrinsic value of the outstanding warrants at September 30, 2018 was \$254,813.

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.

In May, 2016, the Company adopted the 2016 Long-Term Incentive Plan (“2016 LTIP”). The number of shares of common stock for issuance or for reference purposes subject to the 2016 LTIP was 2,000,000.

On December 7, 2016, the stockholders of the Company approved the 2016 Incentive Plan. The purpose of the 2016 Incentive Plan is to enhance the profitability and value of the Company for the benefit of its stockholders by enabling the Company to offer eligible employees, consultants, and non-employee directors’ incentive awards in order to attract, retain and reward such individuals and strengthen the mutuality of interests between such individuals and the Company’s stockholders. The aggregate number of shares of Common Stock that may be issued or used for reference purposes under the 2016 Incentive Plan or with respect to which awards may be granted may not exceed 15,000,000 shares, which may be either (i) authorized and unissued Common Stock or (ii) Common Stock held in or acquired for the treasury of the Company.

Table of Contents

The Compensation Committee of the Company Board of Directors has full authority to administer and interpret the 2016 Incentive Plan, to grant awards under the 2016 Incentive Plan, to determine the persons to whom awards will be granted, to determine the types of awards to be granted, to determine the terms and conditions of each award, to determine the number of shares of Common Stock to be covered by each award and to make all other determinations in connection with the 2016 Incentive Plan and the awards thereunder as the Committee, in its sole discretion, deems necessary or desirable.

On December 14, 2017, the Board of Directors approved the 2017 Incentive Plan ("2017 IP"). Forty million (40,000,000) shares of Common Stock are subject to the 2017 IP.

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

The significant assumptions relating to the valuation of the Company's options granted during the nine months ended September 30, 2018 were as follows on a weighted average basis:

Dividend Yield	0%
Expected Life (in years)	2.48 – 2.96
Expected Volatility	163.73% – 177.59%
Risk Free Interest Rate	2.54% – 2.62%

A summary of the status and changes of the options granted under stock option plans and other agreements during the nine months ended September 30, 2018:

	Shares Issuable Upon Exercise of Options	Weighted Average Exercise Price
Outstanding at December 31, 2017	57,057,768	\$ 0.36
Granted	4,224,999	\$ 0.11
Exercised	—	—
Forfeited	(282,645)	1.36

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

Outstanding at September 30, 2018 61,000,122 \$ 0.34

During the nine months ended September 30, 2018, the Company granted 4,224,999 options to purchase the Company's common stock with a weighted average exercise price of \$0.11. The options vest monthly through June, 2019.

Table of Contents

A summary of the status of the options outstanding at September 30, 2018 is presented below:

Options Outstanding		Options Exercisable		
Range of Exercise Prices (\$)	Number	Weighted Average Exercise Price (\$)	Number	Weighted Average Exercise Price (\$)
0.06 - 0.11	36,245,288	0.06	28,920,287	0.06
0.12 - 0.21	3,581,395	0.13	2,331,390	0.13
0.22 - 0.66	4,280,093	0.27	4,280,093	0.27
0.68 - 1.10	12,251,286	0.75	12,251,286	0.75
1.15 - 1.90	4,642,060	1.66	4,642,060	1.66
	61,000,122	0.34	52,425,116	0.39

On December 14, 2017, the Company's management was granted performance-based options to purchase 27.5 million shares of the Company's common stock at \$0.06 per share. The options expire on December 13, 2027. At December 31, 2017, the first fifty percent (50%) of the performance-based options vested as management was able to (i) close the sale of an aggregate of \$600,000 of units (consisting of a share of common stock of the Company and a warrant to buy 0.25 of a share of common stock of the Company) at \$0.04 per unit and (ii) establish toll processing arrangements with two toll processors of halloysite that, in management's good faith belief, can process halloysite to the Company's specifications. An additional twenty-five percent (25%) of the performance-based options vested on February 1, 2018 when management generated \$900,000 of additional cash proceeds through (i) the sale of common stock and (ii) the licensing of a right to explore the Dragon Mine property for certain precious metals. The vesting of the remaining 8.3%, 8.3% and 8.4% of the performance-based options occurs when (i) EBITDA is positive over a twelve-month period, (ii) EBITDA is at or greater than \$2 million over a twelve-month period and (iii) EBITDA is at or greater than \$4 million over a twelve-month period, respectively. At September 30, 2018, the achievement of the performance targets was not deemed probable.

Compensation expense of \$60,430 and \$964,647 has been recognized for the vested options for the three and nine months ended September 30, 2018. The aggregate intrinsic value of the outstanding options at September 30, 2018 was \$1,785,196. At September 30, 2018, (i) \$85,464 of unamortized compensation expense for time-based unvested options will be recognized over the next 0.45 years on a weighted average basis; and (ii) \$354,750 of unamortized compensation expense for performance-based unvested options will be recognized as the achievement of the performance targets becomes probable.

Table of Contents

NOTE 10 - PER SHARE DATA

The computation of basic earnings (loss) per share of common stock is based on the weighted average number of shares outstanding during the year. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus the common stock equivalents that would arise from the exercise of stock options and warrants outstanding under the treasury method and the average market price per share during the year as well as the conversion of notes. At September 30, 2018, the weighted average shares outstanding excluded options to purchase 61,000,122 shares of common stock of the Company, warrants to purchase 26,688,373 shares of common stock of the Company and 96,813,732 shares of common stock of the Company issuable upon the conversion of notes because their effect would be anti-dilutive. At September 30, 2017, the weighted average shares outstanding excluded options to purchase 21,277,479 shares of common stock of the Company, warrants to purchase 10,000,873 shares of common stock of the Company and 52,075,593 shares of common stock of the Company issuable upon the conversion of notes payable because their effect would be anti-dilutive.

NOTE 11- COMMITMENTS AND CONTINGENCIES

Office Lease

On January 1, 2017, the Company moved its headquarters to a temporary location. The Company paid a monthly rent of \$6,000 through March 31, 2017 for the temporary office. On April 1, 2017, the Company entered into a 5-year lease agreement for permanent office space. At September 30, 2018, the Company's total monthly office rental payments, due through March 31, 2022, was \$396,114. At September 30, 2018, \$26,883 of total rent payments are due through December 31, 2018, \$109,953 of total rent payments are due through December 31, 2019, \$113,253 of total rental payments are due through December 31, 2020, \$116,649 of total rent payments are due through December 31, 2021 and \$29,376 of total rent payments are due through March 31, 2022.

Table of Contents

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

Forward-looking Statements

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

Overview

Applied Minerals, Inc. (the "Company" or "Applied Minerals" or "we" or "us") (OTCQB: AMNL) owns the Dragon Mine in central Utah. From the mine we extract, process, or have processed by a third party, halloysite clay and iron oxide for sale to a range of end markets. We market the minerals directly and through distributors and also under a profit-sharing arrangement with the Kaolin business unit of BASF Corp. ("BASF").

We also engage in research and development and frequently work collaboratively with potential customers, consultants, distributors, and BASF to process and enhance our halloysite clay products to improve the performance of existing and new products.

Our halloysite clay, which we market under the DRAGONITE™ trade name, is an aluminosilicate mineral with a hollow tubular shape. DRAGONITE can utilize halloysite's morphology, high surface area, and reactivity to add significant functionality to a number of applications such as, but not limited to, reinforcement additives for polymer composites, flame retardant additives for polymers, catalysts, controlled release carriers for paints and coatings, strength reinforcement additives for cement, concrete, mortars and grouts, advanced ceramics, rheology additives for drilling fluids, environmental remediation media, and carriers of agricultural agents. The Company sells its halloysite products at negotiated prices.

Our iron oxide, which we market under the AMIRON™ trade name, is a high purity product. We have sold it on an exclusive basis to one customer at a negotiated price for use in an oilfield application and we are continuing to offer AMIRON to that customer on an exclusive basis. Currently, we are not selling AMIRON™ to customers on a continuing basis for use in any other application.

The Company is classified as an “exploration stage” company for purposes of Industry Guide 7 of the U.S. Securities and Exchange Commission (“SEC”) Under Industry Guide 7, companies engaged in significant mining operations are classified into three categories, referred to as “stages” - exploration, development, and production. Exploration stage includes all companies that do not have established reserves in accordance with Industry Guide 7. Such companies are deemed to be “in the search for mineral deposits.” Notwithstanding the nature and extent of development-type or production-type activities that have been undertaken or completed, a company cannot be classified as a development or production stage company unless it has established reserves in accordance with Industry Guide 7.

In 2017, we entered into a tolling agreement with BASF under which BASF will process the Company’s halloysite product, utilizing a water-based system. The BASF system is capable of eliminating impurities, such as iron oxide, and chemically treating the surface of halloysite to achieve desired functionality.

We have a mineral processing plant with a capacity of up to 45,000 tons of mineralization per annum for certain applications. The plant is currently dedicated to processing its halloysite products.

Additionally, the Company has a second processing facility with a capacity of up to 10,000 tons per annum. This smaller plant is currently dedicated to processing the Company’s halloysite. This smaller plant processes halloysite using a dry-based, micronizing system. This dry-based system does not eliminate impurities, such as iron oxide, as effectively as a water-based system but is useful in situations where the removal of impurities is not necessary.

For the foreseeable future, the Company expects to utilize a commercial-sized crusher to process its iron oxide to satisfy any sales of its AMIRON product.

For the nine months ended September 30, 2018, the Company’s largest customer accounted for approximately 94% of total revenue and at September 30, 2018 amounts owed by the Company’s two largest customers represented 68% of accounts receivable.

Table of Contents*Critical Accounting Policies and Estimates*

A complete discussion of our critical accounting policies and estimates is included in our Form 10-K/A for the year ended December 31, 2017. There have been no material changes in our critical accounting policies and estimates during the nine-month period ended September 30, 2018 compared to the disclosures on Form 10-K/A for the year ended December 31, 2017.

Recent Accounting Pronouncements

See NOTE 3 – BASIS OF REPORTING AND SIGNIFICANT ACCOUNTING POLICIES

*Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017***Results of Operations**

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

	Three Months Ended September 30,		Variance	
	2018	2017	Amount	%
REVENUES	\$ 4,682,003	\$ 148,303	\$4,533,700	3,057%
OPERATING EXPENSES:				
Production costs	581,072	412,713	168,359	41 %
Exploration costs	36,068	47,172	(11,104)	(24)%
General and administrative	613,605	664,217	(50,612)	(8)%
Depreciation expense	318,182	329,357	(11,175)	(3)%
Total Operating Expenses	1,548,927	1,453,459	95,468	7 %
Operating Income (Loss)	3,133,076	(1,305,156)	4,438,232	340 %

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

OTHER INCOME (EXPENSE):

Interest expense, net, including amortization of deferred financing cost and debt discount	(608,585)	(2,527,374)	(1,918,789)	(76)%
Gain (loss) on revaluation of PIK Note derivative	3,021,500	(570,473)	3,591,973	630 %
Other expense, net	(9,433)	(4,064)	5,369	132 %
Total Other Income (Expense)	2,403,482	(3,101,911)	5,505,393	177 %
NET INCOME (LOSS)	\$ 5,536,558	\$ (4,407,067)	\$ 9,943,625	226 %

Revenue for the three months ended September 30, 2018 totaled \$4,682,003, compared to \$148,303 for the same period in 2017, an increase of \$4,533,700 or 3,057%. The increase was driven primarily by the sale of the Company's 4.5 million tons of surface pile material for \$4,546,145. The five surface piles of the Dragon Mine property were created primarily from the production of unusable clay mineral during open pit and underground mining operations carried out between 1949 and 1976. The piles contain a mixture of halloysite, kaolinite and illite in addition to a range of non-clay minerals. The five surface piles will be used as a natural pozzolan to extend Class F fly ash. The Company will receive an additional \$1.00 for every ton of surface pile material it removes from the Dragon Mine property.

Sales of DRAGONITE during the three months ended September 30, 2018 totaled \$131,268, a decrease of \$14,635 or 10% when compared to the same period in 2017. Sales of AMIRON during the three months ended September 30, 2018 totaled \$971 compared to \$1,000 during the same period in 2017. The decrease in sales of DRAGONITE was driven by a decline in sales to three customers performing development work, partially offset by sales to a customer preparing to commercialize a product utilizing DRAGONITE in late 2018 or early 2019. During the period the Company recognized \$3,620 of revenue related to the rental of its water truck to an exploration company.

Table of Contents

Total operating expenses for the three months ended September 30, 2018 were \$1,548,927 compared to \$1,453,459 for the same period in 2017, an increase of \$95,468 or 7%. The increase in operating expenses was driven by a \$168,359 or 41% increase in production expenses partially offset by a \$50,612 or 8% decrease in general and administrative expense, a \$11,104 or 24% decrease in exploration costs, and a \$11,175 or 3% decrease in depreciation expense.

Production costs include those operating expenses which management believes are directly related to the mining and processing of the Company's iron oxide and halloysite minerals, which result in the production of its AMIRON and DRAGONITE products for commercial sale. Production costs include, but are not limited to, wages and benefits of employees who mine material and who work in the Company's milling operations, energy costs associated with the operation of the Company's two mills, the cost of mining and milling supplies and the cost of the maintenance and repair of the Company's mining and milling equipment. Wages and energy are the two largest components of the Company's production costs.

Production costs incurred during the three months ended September 30, 2018 totaled \$581,072 compared to \$412,713 of production costs incurred during the same period in 2017. The increase of \$168,359 was driven primarily by the inclusion of a commission payment of \$227,307 related to the sale of the Company's surface pile material. Excluding the commission payment, production costs incurred during the three months ended September 30, 2018 totaled \$353,765. Excluding the payment of the commission related to the sale of the surface pile material, production costs for the three months ended September 30, 2018 would have decreased by \$58,948 compared to the same period in 2017. The \$58,948 decrease was resulted primarily from a \$72,895 decrease in employee wages and related benefits due to a reduction in employee headcount at the Dragon Mine, the absence of \$26,171 of legal fees related to an MSHA investigation during the same period in 2017 and a \$25,882 decrease in mining related expense, partially offset by a \$66,000 increase in tolling costs of DRAGONITE by BASF.

Exploration costs include operating expenses incurred at the Dragon Mine that are not directly related to production activities. Exploration costs incurred during the three months ended September 30, 2018 were \$36,068 compared to \$47,172 incurred during the same period in 2017, a decrease of \$11,104 or 24%. The decrease was driven primarily a reduction in non-production related expenses such as consulting expense and costs associated with staffing and running the Company's lab at the Dragon Mine.

General and administrative expenses incurred during the three months ended September 30, 2018 totaled \$613,605 compared to \$664,217 during the same period in 2017, a decrease of \$50,612 or 8%. The Company's selling and administrative expenses are associated primarily with its corporate headquarters in Brooklyn, N.Y.

The \$50,612 decline in general and administrative expense was driven by a \$39,477 decline in wages and other employee expense due primarily to a reduction in total cash compensation of certain employees, a \$29,524 decrease in

insurance expense related to a lower amortization of prepaid insurance premium and \$26,664 decrease in travel related expense. The decrease was partially offset by a \$37,353 increase in equity-based compensation related to the amortization of common stock options granted to employees and consultants and a \$7,700 increase in legal fees for work related to the Company's June, 2018 capital raise and payment made to a compensation consultant.

Operating income incurred during the three months ended September 30, 2018 was \$3,133,076, an increase of \$4,438,232 when compared to the same period in 2017. The increase in operating income during the quarter was due to a 3,057% increase in revenue and a 35% decrease in exploration, general and administrative and depreciation expense, partially offset by a 41% increase in production costs.

Total other income (expense) incurred during the three months ended September 30, 2018 was \$2,403,482, a decrease in expense of \$5,505,393 or 177% compared to the same period in 2017. The decrease in other expense during the period was driven by a \$1,918,789 or 76% decrease in interest expense incurred due to the restructuring of the terms of the Company's outstanding PIK Notes and an \$3,591,973 or 630% decrease in the loss realized on the revaluation of the PIK Note derivative liability due to a decrease in the value of the Company's common stock.

Net Income for the three-month period ending September 30, 2018 was \$5,536,558, a decrease in loss of \$9,943,625 or 226%, when compared to the same period in 2017. The decrease in loss was due primarily to a \$4,533,700 increase in revenues and a \$5,505,393 decrease in other expense, partially offset by a \$95,468 increase in operating expenses.

Table of Contents*Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017***Results of Operations**

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

	Nine Months Ended September 30,		Variance	
	2018	2017	Amount	%
REVENUES	\$ 4,820,088	\$ 2,300,998	\$2,519,090	109 %
OPERATING EXPENSES:				
Production costs	937,614	2,125,007	(1,187,393)	(56)%
Exploration costs	147,680	304,631	(156,951)	(52)%
General and administrative	2,687,961	2,137,655	550,306	26 %
Depreciation expense	963,144	989,122	(25,978)	(3)%
Total Operating Expenses	4,736,399	5,556,415	(820,016)	(15)%
Operating Income (Loss)	83,689	(3,255,417)	3,339,106	103 %
OTHER INCOME (EXPENSE):				
Interest expense, net, including amortization of deferred financing cost and debt discount	(3,729,540)	(6,843,524)	(3,113,984)	(46)%
Gain (loss) on revaluation of PIK Note derivative	(3,557,004)	1,066,368	(4,623,372)	(434)%
Other income, net	344,392	21,620	322,772	1,493 %
Total Other Expense	(6,942,152)	(5,755,536)	1,186,616	21 %
NET LOSS	\$ (6,858,463)	\$ (9,010,953)	\$(2,152,490)	(24)%

Revenue generated during the nine months ended September 30, 2018 was \$4,820,088, compared to \$2,300,998 of revenue generated during the same period in 2017, an increase of \$2,519,090 or 109%. The increase was driven primarily by the sale of the Company's 4.5 million tons of surface pile material for \$4,546,145. The five surface piles of the Dragon Mine property were created primarily from the production of unusable clay mineral during open pit and underground mining operations carried out between 1949 and 1976. The piles contain a mixture of halloysite, kaolinite and illite in addition to a range of non-clay minerals. The five surface piles will be used as a natural pozzolan to extend Class F fly ash. The Company will receive an additional \$1.00 for every ton of surface pile material it

removed from the Dragon Mine property.

The increase in revenue was partially offset by a decline in sales of AMIRON. Sales of AMIRON during the nine months ended September 30, 2018 totaled \$29,492, a decline of \$1,374,620 or 98%. The decline was due primarily to the fulfillment by the Company of a 5-year, \$5.0 million take-or-pay supply agreement of AMIRON in June, 2017. Sales of DRAGONITE during for the nine months ended September 30, 2018 totaled \$264,342, a decrease of \$631,771 or 71%. The decline was due primarily to a \$383,240 decrease in sales to a manufacturer of advanced molecular sieves for use as an additive, a \$196,800 decline in sales for to a manufacturer of injection molded architectural products for use as a nucleating agent, and a \$138,000 decline in sales to a polymer compounder for use as a nucleating agent. The decline was partially offset by \$92,000 of sales to a manufacturer of industrial products for use as a flame retardant additive.

Total operating expenses for the nine months ended September 30, 2018 were \$4,736,399 compared to \$5,556,415 of operating expenses incurred during the same period in 2017, a decrease of \$820,016 or 15%. The decline in operating costs was driven primarily by a \$1,187,393 or 56% decline in production costs and a \$156,951 or 52% decline in exploration costs, partially offset by a \$550,306 or 26% increase in general and administrative costs.

Table of Contents

Production costs include those operating expenses which management believes are directly related to the mining and processing of the Company's iron oxide and halloysite minerals, which result in the production of its AMIRON and DRAGONITE products for commercial sale. Production costs include, but are not limited to, wages and benefits of employees who mine material and who work in the Company's milling operations, energy costs associated with the operation of the Company's two mills, the cost of mining and milling supplies and the cost of the maintenance and repair of the Company's mining and milling equipment. Wages and energy are the two largest components of the Company's production costs.

Production costs incurred during the nine months ended September 30, 2018 were \$937,614 compared to \$2,125,007 of costs incurred during the same period in 2017, a decrease of \$1,187,393 or 56%, when compared to the same period in 2017. The decline in production costs was driven primarily by the elimination of costs such as employee wages and benefits, utilities, fuel and other production inputs, associated with the fulfillment in June, 2017 of the 5-year, \$5 million take-or-pay contract for AMIRON. Additionally, the Company further reduced headcount on a temporary basis at the Dragon Mine during the nine months ended September 30, 2018, which also contributed to the decline in production costs.

Exploration costs are associated with the Company's activities at its Dragon Mine location, excluding costs directly associated with production. Exploration costs incurred during the nine months ended September 30, 2018 were \$147,680 compared to \$304,631 incurred during the same period in 2017, a decrease of \$156,951, or 52%, when compared to the same period in 2017. The decrease was driven primarily a reduction in non-production related expenses such as consulting expense and costs associated with staffing and running the Company's lab at the Dragon Mine.

The Company's general and administrative expenses are associated primarily with its New York operations. General and administrative expenses incurred during the nine months ended September 30, 2018 totaled \$2,687,961 compared to \$2,137,655 of expense incurred during the same period in 2017, an increase of \$550,306 or 26%. The increase was driven primarily by an \$818,760, or 561%, increase in equity-based compensation expense associated with options granted to the Company's management and directors during the latter half of 2017. The increase in equity-based expense was partially offset by a \$130,568, or 11%, decrease in cash compensation paid to specific executives, a \$93,082 decline in travel and entertainment expense, and a \$23,496 decrease in utility expense.

Operating income incurred during the nine months ended September 30, 2018 was \$83,689 compared to a loss of \$3,255,417 incurred during the same period in 2017, a increase in operating income of \$3,339,106 or 103%. The increase in operating income during the period was due to a 109% increase in revenue, a 56% decrease in production costs and a 52% decrease in exploration costs, partially offset by a 26% increase in general and administrative expense.

Total other expense during the nine months ended September 30, 2018 totaled \$6,942,152, an increase of \$1,186,616 or 21%. The increase in other expense was driven primarily by an \$3,557,004 loss realized on the revaluation of the PIK Note derivative liability compared to a \$1,066,368 gain realized during the same period in 2017, partially offset by a \$3,113,984, or 46%, decrease in interest expense due to a restructuring of the Company's Series A and Series 2023 Notes and a \$322,772, or 1,493%, increase in other income comprised primarily of lease income earned during the three months ended March 31, 2018.

Net Loss for the nine-month period ending September 30, 2018 was \$6,858,463 compared to a loss of \$9,010,953 incurred during the same period in 2017, a decrease in net loss of \$2,152,490 or 24%. The decrease in net loss was driven primarily by a \$2,519,090 increase in total revenue and an \$820,016 decrease in total operating expense, partially offset by a \$1,186,616 increase in total other expense.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

The Company has a history of recurring losses from operations and the use of cash in operating activities. For the nine months ended September 30, 2018, the Company's net loss was \$6,858,463 and cash used in operating activities was \$2,153,123. As of September 30, 2018, the Company had current assets of \$3,935,991 and current liabilities of \$1,057,037 of which \$422,919 was accrued PIK Note interest likely to be paid in additional PIK Notes. The Company's current liabilities also include (i) \$157,040 of payables to a compounder for which it has agreed to satisfy in halloysite product and (ii) \$132,635 of disputed accrued expenses for which the Company believes it has a statute of limitations defense.

Based on the Company's current cash usage expectations, management believes it has sufficient liquidity to fund its operations through November 19, 2019.

Cash generated from operating activities during the nine months ended September 30, 2018 was \$2,153,123 compared to a usage of cash of \$1,414,895 during the same period in 2017, a difference of \$3,568,018. Before accounting for changes in operating assets and liabilities, cash generated from operating activities during 2018 was \$2,409,114 compared to a usage of cash of \$2,445,939 during the same period in 2017. The difference was driven by the \$2,519,090 increase in revenue realized during 2018 compared to 2017.

Cash used in investing activities during the nine months ended September 30, 2018 was \$23,063 compared to \$43,753 during the same period in 2017, a decrease of \$20,690 or 47%. The decrease was primarily due to a lower level of expenditure related to capital improvements.

Cash provided by financing activities during the nine months ended September 30, 2018 was \$1,605,526 compared to \$679,664 during the same period in 2017. The \$925,862 increase in cash generated during the period was due primarily to \$1,735,000 of proceeds generated from the sale of common stock of the Company and \$80,000 of proceeds from the exercise of warrants to purchase shares of common stock of the Company.

Total assets at September 30, 2018 were \$6,051,627 compared to \$3,324,164 at December 31, 2017, an increase of \$2,727,463 due primarily to the increase in cash balance. Total liabilities were \$43,271,225 at September 30, 2018, compared to \$36,524,946 at December 31, 2017. The increase in total liabilities was due primarily to a \$3,690,842 increase in the balance of the PIK Note derivative liability and a \$3,223,359 increase in the PIK Note balance due to the issuance of additional PIK Notes in lieu of cash interest payments.

ISSUANCE OF CONVERTIBLE DEBT

For information with respect to issuance of convertible debt, see Note 7 of Notes to Consolidated Financial Statements included elsewhere in this Quarterly Report.

Off-Balance Sheet Arrangements

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

The following table summarizes our contractual obligations as of September 30, 2018 that requires 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	\$396,114	\$109,146	\$228,216	\$58,752	\$- 0 -
Total	\$396,114	\$109,146	\$228,216	\$58,752	\$- 0 -

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Table of Contents

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, ineffective 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.

Notwithstanding the existence of these material weaknesses in our internal control over financial reporting, the management believes that the consolidated financial statements included in this Form 10-Q fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS.

Except for the below, there were no additions or material changes to the Company's risk factors disclosed in Item 1A of Part I in the Company's 2017 Annual Report on Form 10-K/A.

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

During January, 2018 the Company issued 1,500,000 shares of common stock to a consultant at a price of \$0.04 per share.

During February, 2018 the Company sold 3,625,000 shares of common stock at a price of \$0.04 per share. The proceeds from the sale were used to fund working capital.

During March, 2018 the Company sold 3,000,000 shares of common stock at a price of \$0.05 per share. The proceeds from the sale were used to fund working capital.

During March, 2018 the Company sold 1,000,000 shares of common stock at a price of \$0.10 per share. The proceeds from the sale were used to fund working capital.

During March a shareholder exercised warrants to purchase 500,000 shares of stock at \$0.04 per share. The proceeds from the exercise of the warrants were used to fund working capital.

During April and May 2018, the Company sold 13,750,000 shares of common stock at a price of \$0.04 per share. The proceeds from the sale were used to fund working capital.

During June 2018, the Company sold 8,000,000 units at a price of \$0.08 per unit. Each unit consists of one share of common stock and one warrant to purchase one share of common stock at a price of \$0.15. The proceeds from the sale were used to fund working capital.

During July 2018, the Company sold 1,875,000 units at a price of \$0.08 per unit. Each unit consists of one share of common stock and one warrant to purchase one share of common stock at a price of \$0.15. The proceeds from the sale were used to fund working capital.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

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

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits.

The following exhibits are included in this report:

Exhibit Number	Description of Exhibit
<u>31.1</u>	<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 Principal Executive Officer</u>
<u>31.2</u>	<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 Principal Financial Officer</u>
<u>32.1</u>	<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 Principal Executive Officer</u>
<u>32.2</u>	<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 Principal Financial Officer</u>
<u>95</u>	<u>Mine Safety Disclosure</u>

101.INS XBRL Instance

101.SCHXBRL Taxonomy Extension Schema

101.CALXBRL Taxonomy Extension Calculation

101.DEF XBRL Taxonomy Extension Definition

101.LABXBRL Taxonomy Extension Labels

101.PRE XBRL Taxonomy Extension Presentation

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

Table of Contents

SIGNATURES

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

APPLIED MINERALS, INC.

Dated: November 19, 2018 /s/ ANDRE ZEITOUN
By: Andre Zeitoun
Chief Executive Officer

Dated: November 19, 2018 /s/ CHRISTOPHER T. CARNEY
By: Christopher T. Carney
Chief Financial Officer