

Applied Minerals, Inc.  
Form 10-Q  
May 17, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

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.)

110 Greene Street – Suite 101, New York, NY  
(Address of principal executive offices)

10012  
(Zip Code)

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

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

ATLAS MINING CO

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NOX

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

|                            |                      |                          |                               |
|----------------------------|----------------------|--------------------------|-------------------------------|
| Large Accelerated<br>Filer | Accelerated<br>Filer | Non-accelerated<br>Filer | Smaller ReportingX<br>Company |
|----------------------------|----------------------|--------------------------|-------------------------------|

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

YES NOX

The number of shares of the registrant's common stock, no par value per share, outstanding as of March 31, 2010 was 67,078,183.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Company)

FIRST QUARTER 2010 REPORT ON FORM 10-Q

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Signatures

Certification Under Sarbanes-Oxley Act of 2002

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## PART I. FINANCIAL INFORMATION

APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Mining Company)  
CONSOLIDATED BALANCE SHEETS

|  | March 31,<br>2010<br>(Unaudited) | December<br>31,<br>2009 |
|--|----------------------------------|-------------------------|
| <b>Current Assets</b>                                      |                                  |                         |
| Cash and cash equivalents                                  | \$ 832,429                       | \$ 1,584,866            |
| Investments – available for sale                           | 5,565                            | 5,565                   |
| Deposits and prepaids                                      | 118,285                          | 145,542                 |
| <b>Total Current Assets</b>                                | <b>956,279</b>                   | <b>1,735,973</b>        |
| <b>Property and Equipment</b>                              |                                  |                         |
| Land and tunnels   | 523,729                          | 523,729                 |
| Land improvements  | 94,029                           | 94,029                  |
| Buildings  | 445,197                          | 445,197                 |
| Mining equipment   | 404,328                          | 432,670                 |
| Milling equipment  | 132,693                          | 98,047                  |
| Laboratory equipment                                       | 67,728                           | 67,728                  |
| Office furniture and equipment                             | 37,522                           | 37,522                  |
| Vehicles   | 75,163                           | 75,163                  |
| Less: Accumulated Depreciation                             | (370,192 )                       | (382,753 )              |
| <b>Total Property and Equipment</b>                        | <b>1,410,197</b>                 | <b>1,391,332</b>        |
| <b>Other Assets</b>  |                                  |                         |
| Assets from discontinued operations<br>being held for sale | 778,056                          | 878,003                 |
| <b>Total Other Assets</b>                                  | <b>778,056</b>                   | <b>878,003</b>          |
| <b>TOTAL ASSETS</b>  | <b>\$ 3,144,532</b>              | <b>\$ 4,005,308</b>     |

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Mining Company)  
CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2010<br>(Unaudited) | December<br>31,<br>2009 |
|---|----------------------------------|-------------------------|
| <b>Current Liabilities</b>  |                                  |                         |
| Accounts payable and accrued liabilities  | \$1,294,210                      | \$1,047,541             |
| Stock awards payable  | 75,000                           | 203,000                 |
| Current portion of notes payable  | 40,457                           | 72,762                  |
| Current portion of leases payable   | 16,384                           | 15,690                  |
| <b>Total Current Liabilities</b>  | <b>1,426,051</b>                 | <b>1,338,993</b>        |
| <b>Long-Term Liabilities</b>  |                                  |                         |
| Long-term portion of leases payable   | 18,501                           | 22,832                  |
| <b>Total Long-Term Liabilities</b>  | <b>18,501</b>                    | <b>22,832</b>           |
| <b>Other Liabilities</b>  |                                  |                         |
| Convertible debt (PIK Notes), net of discount   | 2,029,167                        | 2,234,473               |
| Liabilities from discontinued operations  | 98,009                           | 98,406                  |
| <b>Total Other Liabilities</b>  | <b>2,127,176</b>                 | <b>2,332,879</b>        |
| <b>TOTAL LIABILITIES</b>  | <b>3,571,728</b>                 | <b>3,694,704</b>        |
| <b>Commitments and Contingencies</b>  | <b>- 0 -</b>                     | <b>- 0 -</b>            |
| <b>Stockholders' Equity (Deficit)</b>   |                                  |                         |
| Preferred stock, \$0.001 par value, 10,000,000 shares authorized, noncumulative, nonvoting, nonconvertible, none issued or outstanding  | - 0 -                            | - 0 -                   |
| Common stock, \$0.001 par value, 120,000,000 shares authorized, 67,078,183 and 69,781,351 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively | 67,078                           | 69,781                  |
| Additional paid-in capital  | 26,799,787                       | 26,965,507              |
| Accumulated deficit prior to the exploration stage  | (20,009,496)                     | (20,009,496)            |
| Accumulated deficit during the exploration stage  | (7,335,537 )                     | (6,766,200 )            |
| Accumulated other comprehensive loss  | (1,327 )                         | (1,327 )                |
| <b>Total Applied Minerals, Inc. stockholders' equity (deficit)</b>  | <b>(479,495 )</b>                | <b>258,265</b>          |
| Non-controlling interest  | 52,299                           | 52,339                  |
| <b>Total Stockholders' Equity (Deficit)</b>   | <b>(427,196 )</b>                | <b>310,604</b>          |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>   | <b>\$3,144,532</b>               | <b>\$4,005,308</b>      |

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Mining Company)  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
(Unaudited)

|   | For the three months ended<br>March 31, |                    | For the<br>Period<br>January 1,<br>2009<br>(Beginning<br>of<br>Exploration<br>Stage)<br>through<br>March 31,<br>2010 |
|---|---|--------------------|--|
|   | 2010                                    | 2009<br>(Restated) |  |
| REVENUES  | \$- 0 -                                 | \$- 0 -            | \$- 0 -  |
| COST OF SALES   | - 0 -                                   | - 0 -              | - 0 -  |
| Gross Profit  | - 0 -                                   | - 0 -              | - 0 -  |
| <b>OPERATING (INCOME) EXPENSES:</b>                               |   |                    |  |
| Exploration costs   | 529,213                                 | 202,932            | 1,828,966  |
| General and administrative  | 650,181                                 | 1,166,552          | 5,334,095  |
| (Gain) loss from disposition of land and equipment                | - 0 -                                   | 619                | (410 )   |
| Loss on impairment of equipment                                   | - 0 -                                   | - 0 -              | 42,042   |
| Total Operating Expenses  | 1,179,394                               | 1,370,103          | 7,204,693  |
| Net Operating Loss  | (1,179,394)                             | (1,370,103)        | (7,204,693)  |
| <b>OTHER INCOME (EXPENSE):</b>                                    |   |                    |  |
| Interest income   | 231                                     | 10                 | 679  |
| Interest expense  | (59,538 )                               | (29,167 )          | (370,092 )   |
| Sale of clay samples  | - 0 -                                   | - 0 -              | 6,000  |
| Refund of insurance premium                                       | - 0 -                                   | 13,488             | 13,786   |
| Gain on stock award forfeiture                                    | 145,000                                 | - 0 -              | 145,000  |
| Gain (loss) on revaluation of stock awards                        | (17,000 )                               | (31,500 )          | (167,500 )   |
| Net proceeds from legal settlement                                | 28,548                                  | - 0 -              | 147,461  |
| Amortization of convertible debt discount                         | (2,194 )                                | - 0 -              | (367,341 )   |
| Other income (expense)  | - 0 -                                   | - 0 -              | 10,855   |
| Total Other Income (Expense)                                      | 95,047                                  | (47,169 )          | (581,152 )   |
| Loss from exploration stage, before income taxes                  | (1,084,347)                             | (1,416,034)        | (7,785,845)  |
| Provision (benefit) for income taxes                              | - 0 -                                   | - 0 -              | - 0 -  |
| Net Loss from Exploration Stage<br>Before Discontinued Operations | (1,084,347)                             | (1,416,034)        | (7,785,845)  |

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|   |              |               |               |
|---|--------------|---------------|---------------|
| Net income (loss) from discontinued operations                | 238,382      | (47,167 )     | 173,708       |
| Net loss from exploration stage after discontinued operations | (845,965 )   | (1,463,201)   | (7,612,137)   |
| Net loss attributable to the non-controlling interest         | 40           | 14            | 12            |
| Net Loss Attributable to Applied Minerals, Inc.               | \$(845,925 ) | \$(1,463,187) | \$(7,612,125) |

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
 (Formerly Atlas Mining Company and Subsidiary)  
 (An Exploration Stage Mining Company)  
 CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
 (Unaudited)  
 (Continued)

|  | For the three months ended<br>March 31, |            |
|--|---|------------|
|  | 2010                                    | 2009       |
| Earnings Per Share Information (Basic and Diluted):  |   |            |
| Net loss per share before discontinued operations attributable to Applied Minerals, Inc. common shareholders | \$(0.01 )                               | \$(0.02 )  |
| Discontinued operations attributable to Applied Minerals, Inc. common shareholders                           | - 0 -                                   | - 0 -      |
| Net Loss Per Share Attributable to Applied Minerals, Inc. common shareholders                                | \$(0.01 )                               | \$(0.02 )  |
| Weighted Average Shares Outstanding (basic and diluted)  | 68,826,593                              | 59,267,378 |

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APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Mining Company)  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
(Unaudited)  
(Continued)

|   | For the three months<br>ended<br>March 31, |               | For the<br>Period<br>January 1,<br>2009<br>(Beginning<br>of<br>Exploration<br>Stage)<br>through<br>March 31,<br>2010 |
|---|--|---------------|--|
|   | 2010                                       | 2009          |  |
| Net Loss  | \$(845,925 )                               | \$(1,463,201) | \$(7,612,125)  |
| Other Comprehensive Income (Loss):                            |  |               |  |
| Change in market value of investments                         | - 0 -                                      | (1,506 )      | 139  |
| Comprehensive Loss  | (845,925 )                                 | (1,464,707)   | (7,611,986)  |
| Comprehensive loss attributable to<br>noncontrolling interest | - 0 -                                      | - 0 -         | - 0 -  |
| Comprehensive Loss Attributable to<br>Applied Minerals, Inc.  | \$(845,925 )                               | \$(1,464,707) | \$(7,611,986)  |

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Mining Company)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|   | For the three months<br>ended<br>March 31, |               | For the<br>Period<br>January 1,<br>2009<br>(Beginning<br>of<br>Exploration<br>Stage)<br>through<br>March 31,<br>2010 |
|---|--|---------------|--|
|   | 2010                                       | 2009          |  |
| Cash flows from operating activities:                                     |  |               |  |
| Net loss  | \$(845,925 )                               | \$(1,463,187) | \$(7,612,125)  |
| Adjustments to reconcile net loss to<br>net cash used in operations:      |  |               |  |
| Depreciation  | 33,594                                     | 31,196        | 157,327  |
| Amortization of discount – PIK Notes                                      | 2,194                                      | - 0 -         | 367,535  |
| Issuance of PIK Notes in payment of interest                              | 3,114                                      | - 0 -         | 285,701  |
| Stock issued for director services  | 10,000                                     | 10,000        | 27,250   |
| Fair value of warrants and options<br>issued to consultants and directors | 57,550                                     | 21,951        | 458,784  |
| Loss on revaluation of stock awards                                       | 17,000                                     | 31,500        | 167,500  |
| Gain on stock award forfeiture  | (145,000 )                                 | - 0 -         | (145,000 )   |
| Gain on disposition of assets   | - 0 -                                      | (619 )        | (410 )   |
| Loss on impairment of assets  | - 0 -                                      | - 0 -         | 42,042   |
| Change in operating assets and liabilities:                               |  |               |  |
| (Increase) Decrease in:   |  |               |  |
| Accounts receivable   | - 0 -                                      | (27 )         | 44   |
| Deposits and prepaids   | 27,257                                     | 92,154        | 164,021  |
| Increase (Decrease) in:   |  |               |  |
| Accounts payable and accrued expenses                                     | 246,639                                    | 258,719       | 552,295  |
| Net cash used by discontinued operations                                  | 1,906                                      | 343,054       | 488,586  |
| Net cash used by operating activities                                     | (591,671 )                                 | (675,259 )    | (5,046,450)  |
| Cash flows from investing activities:                                     |  |               |  |
| Purchases of land improvements  | - 0 -                                      | - 0 -         | (2,194 )   |
| Purchases of equipment and vehicles                                       | (52,514 )                                  | - 0 -         | (175,094 )   |
| Proceeds from sale of assets  | 100,000                                    | - 0 -         | 100,000  |
| Net cash provided by discontinued operations                              | - 0 -                                      | 800           | 432,170  |
| Net cash provided by investing activities                                 | 47,486                                     | 800           | 354,882  |
| Cash flows from financing activities:                                     |  |               |  |
| Payments on notes payable   | (32,305 )                                  | (48,059 )     | (199,508 )   |

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|  |            |            |            |
|--|------------|------------|------------|
| Payments on leases payable                       | (3,637 )   | (111,117 ) | (124,884 ) |
| Proceeds from notes payable                      | - 0 -      | - 0 -      | 124,129    |
| Proceeds from PIK notes payable                  | - 0 -      | - 0 -      | 5,050,000  |
| Payments for legal settlement                    | (170,000 ) | - 0 -      | (170,000 ) |
| Net cash used by discontinued operations         | (2,310 )   | - 0 -      | (58,741 )  |
| Net cash provided (used) by financing activities | (208,252 ) | (159,176 ) | 4,620,996  |
| Net increase (decrease) in cash                  | (752,437 ) | (833,635 ) | (70,572 )  |
| Cash and cash equivalents at beginning of period | 1,584,866  | 903,001    | 903,001    |
| Cash and cash equivalents at end of period       | \$832,429  | \$69,366   | \$832,429  |

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
 (Formerly Atlas Mining Company and Subsidiary)  
 (An Exploration Stage Mining Company)  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (Continued)

|  | For the three months<br>ended<br>March 31, |         | For the<br>Period<br>January 1,<br>2009<br>(Beginning<br>of<br>Exploration<br>Stage)<br>through<br>March 31,<br>2010 |
|--|--|---------|--|
|  | 2010                                       | 2009    |  |
| <b>Cash Paid For:</b>  |  |         |  |
| Interest   | \$8,844                                    | \$7,242 | \$26,431   |
| Income Taxes   | \$- 0 -                                    | \$- 0 - | \$- 0 -  |
| <b>Supplemental Disclosure of Non-Cash<br/>Investing and Financing Activities:</b> |  |         |  |
| Conversion of debt and<br>accrued interest to common stock                         | \$210,614                                  | \$- 0 - | \$4,306,535  |

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Mining Company)  
Condensed Notes to the Consolidated Financial Statements  
March 31, 2010 and 2009

NOTE 1 – BASIS OF PRESENTATION AND GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Applied Minerals, Inc. (“The Company”) has incurred material recurring losses from operations. At December 31, 2009, the company had aggregate accumulated deficits prior to and during the exploration stage of \$27,345,081, in addition to limited cash and unprofitable operations. For the period ended March 31, 2010 and 2009, the Company sustained net losses before discontinued operations of \$1,084,299 and \$1,416,034, respectively. These factors indicate that the Company may be unable to continue as a going concern for a reasonable period of time. The financial statements do not include any adjustments relating to the recoverability and reclassification of recorded asset amounts or the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern. The Company’s continuation as a going concern is contingent upon its ability to obtain generate revenue and cash flow to meet its obligations on a timely basis and/or management’s ability to raise financing through the sale of equity and/or the disposition of certain non-core assets. If successful, this will mitigate the factors that raise substantial doubt about the Company’s ability to continue as a going concern.

Operating results for the three months period ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The consolidated financial information as of December 31, 2009 included herein has been derived from the Company’s audited consolidated financial statements as of, and for the fiscal year ended December 31, 2009.

NOTE 2 – ORGANIZATION AND DESCRIPTION OF BUSINESS

The Company was originally incorporated in the state of Idaho on March 4, 1924. The Company was formed for the purpose of exploring and developing the Atlas Mine, a consolidation of several patented mining claims located in the Coeur d’Alene Mining District near Mullan, Idaho. The Company eventually became inactive as a result of low silver prices. In September 1997, the Company became active again, delivering contract mining services to other mining companies. Historically, the Company’s contract mining operation has been its sole source of revenue and income.

In 1998 and 1999, the Company exchanged 71,238 shares of its common stock for 53% of the outstanding shares of Park Copper and Gold Mining, Ltd. (“Park Copper”), an Idaho corporation. Park Copper holds mining claims in northern Idaho.

In July 2001, the Company began leasing the Dragon Mine from Conjecture Silver Mines, Inc. of Spokane, Washington. The Company issued 100,000 shares of its common stock for each year of the lease for the years 2002 through 2005 and exercised the right to purchase the mine on August 18, 2005 for \$500,000 in cash. The property is located in Juab County, Utah and consists of 38 patented-mining claims on approximately 230 acres.

APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
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Condensed Notes to the Consolidated Financial Statements  
March 31, 2010 and 2009

NOTE 2 – ORGANIZATION AND DESCRIPTION OF BUSINESS (CONTINUED)

The Company operated a contract mining business under the trade name of Atlas Fausett Contracting (“AFC”). AFC was engaged in exploration and mine development as well as preparatory work such as site evaluation, feasibility studies, trouble-shooting and consultation. AFC’s projects included all types of underground mine development, rehabilitation, and diamond drilling. On December 31, 2008, the Company discontinued its contract mining efforts due to economic conditions and the desire to concentrate efforts on commercializing the halloysite clay deposit at the Dragon Mine. There are no plans to resume the contract mining business.

In October 2007, management announced its intention to cease development at the Dragon Mine until both a resource survey and an appropriate processing system could be obtained. During 2008, the Company hired a geological firm it believes is capable of conducting the necessary resource survey and identifying an appropriate processing system. Such consulting continued through the period ended March 31, 2010.

In October 2009, the shareholders of the Company voted to change the name of the Company and its state of incorporation. The Company is incorporated under the laws of the state of Delaware.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed, consolidated financial statements represent the consolidation of the Company and all companies that the Company directly controls either through majority ownership or otherwise.

Accounting Method and Use of Estimates

The Company’s financial statements are prepared using the accrual basis of accounting in accordance with principles generally accepted in the United States of America.

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

Unaudited Interim Financial Statements

The interim financial statements as of March 31, 2010, and for the periods ended March 31, 2010 and 2009, and cumulative from inception of the exploration stage through March 31, 2010, are unaudited. However, in the opinion of management, the interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present the Company’s financial position as of March 31, 2010 and the results of its operations and its cash flows for the periods ended March 31, 2010 and 2009, and cumulative from inception of the exploration stage through March 31, 2010. These results are not necessarily indicative of the results expected for the year ending December 31, 2010. The accompanying financial statements and condensed notes thereto do not reflect all disclosures required under accounting principles generally accepted in the United States of America. Refer to the Company’s audited financial statements as of December 31, 2009, filed with the Securities and Exchange Commission

(“SEC”) for additional information, including significant accounting policies.

APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Mining Company)  
Condensed Notes to the Consolidated Financial Statements  
March 31, 2010 and 2009

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Convertible Debt

Pursuant to FASB ASC 470-20, if the conversion feature of conventional convertible debt provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature (“BCF”). A BCF is recorded by the Company as a debt discount. In those circumstances, the convertible debt will be recorded net of the discount related to the BCF. The Company amortizes the discount to amortization of convertible debt expense over the life of the debt using the straight-line amortization method (See Note 6).

Fair Value

The Company measures its financial assets and liabilities in accordance with generally accepted accounting principles. FASB ASC 820-10-50 requires certain disclosures regarding the fair value of financial instruments. For certain of the Company’s financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities, notes payable, and leases payable, the carrying amounts approximate fair value due to their short maturities. For other instruments, including securities available for sale, the carrying amounts approximate fair value based market driven pricing.

Legal Costs

In the normal course of business, the Company will incur costs to engage and retain external legal counsel to advise management on regulatory, litigation and other matters. Such legal costs are expensed as the related services are received.

Mining Exploration and Development Costs

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

At March 31, 2010 and 2009, and cumulative from inception of the exploration stage through March 31, 2010, all costs associated with the exploration of the Dragon Mine have been expensed.

Restatements

Certain amounts in the 2009 financial statements have been restated to conform to the 2010 presentation to more appropriately account for expenses related to exploration costs. This restatement had no effect on previously reported results of accumulated deficit.

Subsequent Events

The Company evaluates events that occur subsequent to the balance sheet date of periodic reports, but before financial statements are issued for periods ending on such balance sheet dates, for possible adjustment to such financial

statements or other disclosure. This evaluation generally occurs through the date at which the Company's financial statements are electronically prepared for filing with the SEC.

APPLIED MINERALS, INC. AND SUBSIDIARY  
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(An Exploration Stage Mining Company)  
Condensed Notes to the Consolidated Financial Statements  
March 31, 2010 and 2009

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Recent Accounting Pronouncements

In April 2010, the FASB issued ASU No. 2010-13, Compensation – Stock Compensation: Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in which the Underlying Equity Security Trades. This update addresses the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. ASC 718 is amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's securities trades shall not be considered to contain a market, performance, or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies as equity classification. The amendments in this update are effective for the fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, although earlier application is permitted. The Company is in the process of evaluating when adoption of this update will occur and what effect, if any, will be incurred when the update is adopted.

## NOTE 4 – DISCONTINUED OPERATIONS

At December 31, 2008, the Company permanently discontinued its contract mining operations.

The Company has identified assets attributed to the discontinued operations that are being held for sale or have been identified as part of the discontinued operation and have been identified as such. Assets at March 31, 2010 and December 31, 2009 attributed to the discontinued operation are as follows:

|   | March 31,<br>2010 | December<br>31,<br>2009 |
|---|-------------------|-------------------------|
| Property and equipment                    | \$778,056         | \$878,003               |
| Total assets from discontinued operations | \$778,056         | \$878,003               |

During January 2010, management selected certain of the property and equipment originally included in discontinued operations, and placed them back into operations.

Liabilities at March 31, 2010 and December 31, 2009 attributed to the discontinued operations are as follows:

|  | March 31,<br>2010 | December<br>31,<br>2009 |
|--|-------------------|-------------------------|
| Accounts payable and accrued liabilities       | \$9,563           | \$7,650                 |
| Leases payable                                 | 88,446            | 90,756                  |
| Total liabilities from discontinued operations | \$98,009          | \$98,406                |



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## NOTE 4 – DISCONTINUED OPERATIONS (CONTINUED)

During the three months ended March 31, 2010, the Company received payments in settlement of one previously recorded bad debts from discontinued operations. Income (loss) after discontinued operations for the three months ended March 31, 2010 and 2009, and cumulative from inception of the exploration stage through March 31, 2010 was calculated as follows:

|  | For the three months<br>ended<br>March 31, |             | For the<br>Period<br>January 1,<br>2009<br>(Beginning<br>of<br>Exploration<br>Stage)<br>Through<br>March 31,<br>2010 |
|--|--|-------------|--|
|  | 2010                                       | 2009        | 2010   |
| Revenues from discontinued operations          | \$- 0 -                                    | \$- 0 -     | \$- 0 -  |
| Cost of goods sold                             | - 0 -                                      | - 0 -       | - 0 -  |
| General and administrative expenses            | (7,125 )                                   | (47,167 )   | (43,479 )  |
| Collection of previously recorded bad debt     | 245,507                                    | - 0 -       | 447,872  |
| Loss on disposal of assets                     | - 0 -                                      | - 0 -       | (148,138 )   |
| Loss on impairment of assets                   | - 0 -                                      | - 0 -       | (82,547 )  |
| Income (loss) from discontinued operations     | 238,382                                    | (47,167 )   | 173,708  |
| Income tax liability                           | - 0 -                                      | - 0 -       | - 0 -  |
| Net income (loss) from discontinued operations | \$238,382                                  | \$(47,167 ) | \$173,708  |

The Company does not believe there is an effect of income taxes on discontinued operations. Due to ongoing operating losses, the uncertainty of future profitability and limitations on the utilization of net operating loss carryforwards under IRC Section 382, a valuation allowance has been recorded to fully offset the Company's deferred tax asset.

## NOTE 5 – STOCK AWARD PAYABLE

In 2007, the Company agreed to grant 350,000 shares in total to a former CEO and Executive Vice President as part of their employment agreements. These shares have not been issued and are recorded as a liability on the balance sheet entitled stock awards payable. The Company reviews the value of the stock award payable and adjusts the carrying value to the market based on the closing price of the Company's common stock on the last day of the quarter. Any adjustment made to the carrying value of the stock award is recorded as a gain or loss on revaluation of stock awards.

In January 2010, as part of a settlement of a class action lawsuit, the former CEO forfeited all rights to his stock awards as part of the final settlement offer. Therefore, the value of his stock award was written down to \$0, creating a

gain on stock award forfeiture of \$145,000.

For the three months ended March 31, 2010, the Company realized a loss on the revaluation of the remaining stock award. The value of the outstanding stock awards at March 31, 2010 and December 31, 2009 were \$75,000 and \$203,000, respectively.

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NOTE 6 – CONVERTIBLE DEBT (PIK NOTES)

Between December 31, 2008 and October 25, 2009, the Company sold several 10% Convertible Notes due December 15, 2018. The notes convert into common stock in the range of \$0.35 to \$1.00 per share. The notes pay interest at the rate of 10% per annum payable (including by issuance of additional in-kind notes) semi-annually in arrears on June 15th and December 15th of each year. The notes include terms whereby interest payable may be paid in either cash or by converting the interest owed the note holder into additional PIK Notes. If the interest payment is converted into PIK Notes, the terms of the notes emulate the originally issued PIK Notes.

Conversion Feature

All notes described above may be converted at the option of the noteholder at any time there is sufficient authorized, unissued common stock of the Company available for conversion. The PIK Notes may be converted, at the option of the Company, when the average closing bid price or market price of the Company's common stock for the preceding five (5) days is above the conversion price.

On November 13, 2009, the Company converted PIK Notes issued in December 2008, April 2009 and May 2009 representing principal and accrued interest of \$4,106,403 into 10,513,809 shares of common stock. During the three months ended March 31, 2010, a PIK Note representing principal and accrued interest of \$210,614 was converted by the Company into 324,193 shares of the Company's common stock.

NOTE 7 – STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue 10,000,000 shares of flexible preferred stock, \$0.001 par value per share. At March 31, 2010 and December 31, 2009, no shares of preferred stock were outstanding.

Common Stock

The Company is authorized to issue 120,000,000 shares of common stock, \$0.001 par value per share. At March 31, 2010 and December 31, 2009, 67,078,183 and 69,781,351 shares were issued and outstanding, respectively.

During the three months ended March 31, 2010, the Company issued a total of 16,722 shares of restricted, common stock to directors as payment of director fees. The value of such was recorded at \$10,000. In addition, the Company exercised its ability to mandatorily convert portions of its convertible debt and unpaid interest into 324,193 shares of common stock.

Also during the three months ended March 31, 2010, as a result of a legal settlement, William Jacobson relinquished ownership of 3,044,083 shares of common stock and returned such shares to the Company in exchange for \$170,000 in cash. Upon receipt of the certificates, the shares were canceled and returned to unissued, authorized capital and the Company paid Jacobson the agreed upon \$170,000 in cash.

Pursuant to the disclosure requirements set forth under GAAP, the following schedule presents a reconciliation of the beginning and ending balances of the equity attributable to the Company and the non-controlling owners, and the effect of the changes in the equity attributable to the Company.



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## NOTE 7 – STOCKHOLDERS’ EQUITY (CONTINUED)

## Non-Controlling Interest

The Company applied non-controlling interest accounting for the period ended March 31, 2010, which requires it to clearly identify the non-controlling interest in the balance sheets and statements of operations. The Company discloses three measures of net income (loss): net income (loss) from discontinued operations, net income (loss) from exploration stage, and net income (loss) attributable to non-controlling interest. The operating cash flows in the consolidated statements of cash flows reflect net loss.

## Non-Controlling Interest

|   |          |
|---|----------|
| Beginning balance, December 31, 2009              | \$52,339 |
| Net loss attributable to non-controlling interest | (40 )    |
| Ending balance, March 31, 2010                    | \$52,299 |

## NOTE 8 – OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK

## Outstanding Stock Warrants

A summary of the status and changes of the warrants are as follows:

|                                  | March 31, 2010 |                                 |
|----------------------------------|----------------|---------------------------------|
|                                  | Shares         | Weighted Average Exercise Price |
| Outstanding at December 31, 2009 | 260,000        | \$0.75                          |
| Issued                           | - 0-           | - 0-                            |
| Exercised                        | - 0-           | - 0-                            |
| Forfeited                        | - 0-           | - 0-                            |
| Expired                          | - 0-           | - 0-                            |
| Outstanding at March 31, 2010    | 260,000        | \$0.75                          |
| Exercisable at March 31, 2010    | 260,000        | \$0.75                          |

A summary of the status of the warrants outstanding at March 31, 2010 is presented below:

| Warrants Outstanding |                    |   |                                 |                    | Warrants Exercisable            |  |
|----------------------|--------------------|---|---------------------------------|--------------------|---------------------------------|--|
| Exercise Price       | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |  |
| \$0.35               | 100,000            | 4.00 years                                  | \$0.35                          | 100,000            | \$0.35                          |  |
| \$1.00               | 160,000            |   | \$1.00                          | 160,000            | \$1.00                          |  |
|                      | 260,000            |   |                                 | 260,000            |                                 |  |

Compensation expense of \$4,601 has been recognized for vesting of warrants to non-related parties in the accompanying statements of operations for the period ended March 31, 2010.

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## NOTE 8 – OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK

## Outstanding Stock Options

A summary of the status and changes of the options granted under stock option plans and other agreements for the period ended March 31, 2010 is as follows:

|                                  | Shares    | March 31, 2010<br>Weighted<br>Average<br>Exercise<br>Price |
|----------------------------------|-----------|--|
| Outstanding at December 31, 2009 | 7,533,277 | \$0.70   |
| Granted                          | 60,000    | 1.00   |
| Exercised                        | - 0-      | - 0-   |
| Forfeited                        | - 0-      | - 0-   |
| Expired                          | - 0-      | - 0-   |
| Outstanding at March 31, 2010    | 7,593,277 | \$0.75   |
| Exercisable at March 31, 2010    | 3,580,535 | \$0.70   |

During the three months ended March 31, 2010, the Company granted 60,000 options to purchase the Company's common stock with an exercise price of \$1.00. Such options will vest in equally over four quarters beginning October 1, 2010 through September 30, 2011.

A summary of the status of the options outstanding at March 31, 2010 is presented below:

| Exercise Price | Options Outstanding |                  |                            | Weighted Average Exercise Price | Options Exercisable |                                 |
|----------------|---------------------|------------------|----------------------------|---------------------------------|---------------------|---------------------------------|
|                | Number Outstanding  | Weighted Average | Remaining Contractual Life |                                 | Number Exercisable  | Weighted Average Exercise Price |
| \$0.65-\$0.71  | 75,000              |                  | 3.25 years                 | \$0.69                          | 75,000              | \$0.69                          |
| \$0.70         | 7,358,277           |                  | 8.5 years                  | \$0.70                          | 3,455,532           | \$0.70                          |
| \$0.91         | 100,000             |                  | 4.50 years                 | \$0.91                          | 50,000              | \$0.91                          |
| \$1.00         | 60,000              |                  | 5.25 years                 | \$1.00                          | - 0 -               | \$1.00                          |
|                | 7,593,277           |                  |                            |                                 | 3,580,535           |                                 |

At March 31, 2010, the total compensation of \$290,137 for unvested shares is to be recognized over the next 1.50 years on a weighted average basis.

Compensation expense of \$52,949 and \$21,951 has been recognized for vesting of options to employees, directors, and non-related parties in the accompanying statements of operations for the periods ended March 31, 2010 and 2009, respectively.



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NOTE 9 – COMMITMENTS AND CONTINGENCIES

COMMITMENTS

Material Advisors

On December 30, 2008, the Company entered into a Management Agreement with Material Advisors LLC, a management services company (“Manager”). The Management Agreement has a term ending on December 31, 2010 with automatic renewal for successive one-year periods unless either Manager or Company provides 90 days prior notice of cancellation to the other party or pursuant to the termination provisions of the Management Agreement. Under the Management Agreement Manager will perform or engage others, including Andre Zeitoun, a principal of Manager, Chris Carney and Eric Basroon (“Management Personnel”), to perform senior management services including such services as are customarily provided by a chief executive officer but not (unless otherwise agreed) services customarily provided by a chief financial officer. Pursuant to the Management Agreement, Andre Zeitoun will serve as Company’s Chief Executive Officer and will be appointed as a member of the Company’s Board of Directors.

The services provided by Manager will include, without limitation, consulting with the Board of Directors of the Company and the Company’s management on business and financial matters. Manager will be paid an annual fee of \$1,000,000 per year, payable in equal monthly installments of \$83,333. Manager will be solely responsible for the compensation of the Management Personnel, including Mr. Zeitoun and the Management Personnel will not be entitled to any direct compensation or benefits from the Company (including, in the case of Mr. Zeitoun, for service on the Board). The Company granted Manager non-qualified stock options to purchase, for \$0.70 per share, up to 6,583,277 shares of the Company’s common stock.

Under certain very specific instances related to a going private transaction, the \$0.70 option will be cancelled and replaced by a non-qualified option (the “Going Private Option”) accompanied by a tandem stock appreciation right (the “SAR”). The term of the \$0.70 Option, the Going Private Option and the SAR will be 10 years. During their terms, the Going Private Option and the SAR will be fully exercisable. If Company declares a dividend or distribution at any time while the \$0.70 option is unvested, Manager will be entitled to receive an amount equal to the dividend or distribution that would be paid on the shares underlying the \$0.70 Option, payable in the same form as such dividend or distribution on the same vesting schedule as the \$0.70 Option. Manager will have the right to participate in a going private transaction for up to 20% of the equity on terms and conditions, which are as favorable to Manager as the terms and conditions available to any other person who invests in the going private entity.

During the quarter ended March 31, 2010, the Board of Directors extended the management agreement between the Company and Material Advisors for one year. With the extension, the management agreement will terminate on December 31, 2011.

NOTE 10 – RELATED PARTIES

On March 9, 2010, the Board of Directors, after a review of the performance of MA decided to extend the term of the Management Agreement (“Agreement”) between the Company and the Manager from December 31, 2010 through December 31, 2011. The terms and conditions of the Agreement are summarized in a Current Report on Form 8-K

filed on January 7, 2009.

The Company is a related party to Andre Zeitoun, a principal of MA. During the year ended December 31, 2008, the Company received \$50,000 from Mr. Zeitoun in exchange for convertible debt. All debt and accrued interest has been converted to 156,167 shares of the Company's common stock.

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NOTE 11 – SUBSEQUENT EVENTS

Lease for purchase of equipment

In April 2010, the Company entered into a capital lease to purchase two pieces of mining equipment for a total purchase price of \$161,444. Such leases will be paid over an eighteen-month period in equal installments of \$10,944 per month.

Resignation of Morris Weiss

On April 16, 2010, Morris Weiss resigned as a director of the Company. Mr. Weiss' resignation was not the result of any disagreement with either the Board of Directors or management of the Company.

Commitment for Financing

On May 15, the Company announced that it has secured \$1,500,000 in financing through the private placement of 10% Mandatorily Convertible PIK Notes. The PIK notes have a strike price of \$1.00 per share and convert into 1,500,000 shares of the Company's common stock.

## NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB 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.

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

### OVERVIEW

Historically, our primary source of revenue had been generated by Contract Mining operations. However, on December 31, 2008, we discontinued our Contract Mining efforts due to economic conditions and the desire to concentrate efforts on commercializing the halloysite clay deposit at the Dragon Mine.

We are a natural resources company principally engaged in the exploration of our resource property, the Dragon Mine, located in the state of Utah.

### Property Exploration

We intend to continue our exploration activities the Dragon Mine. We do not intend to seek out and acquire other properties.

In August 2001 we acquired the Dragon Mine in Juab, Utah and began our clay exploration activities. Our exploration expenses for the three months ending March 31, 2010 and 2009 were \$529,213 and \$202,932, respectively, on the halloysite clay property.

The activities at our Dragon Mine property, located in Juab County, Utah, were suspended in October 2007 when previous management determined that both a resource survey and an appropriate processing facility were needed before the property could be successfully commercialized. In 2008, a geological consulting firm was hired by us to both carry out a detailed geological review of the property and develop an appropriate method by which to process the mineral resource. This work is ongoing as of the date of this report. Beginning in 2009, we began processing material from the mine and distributing samples to potential customers as part of a preliminary marketing program. The geological consulting firm referred to above has sub-contracted with a firm with expertise in the development of mineral processing to identify an appropriate processing system for the Company. Any subsequent reference to a geological consulting firm may be assumed to include the firm currently being contracted to identify the processing system.

Management believes that the clay resource found at the Dragon Mine property possesses, among other things, certain structural and mineralogical characteristics that may possibly add functionality to applications such as, but not limited to, the controlled release of biological and chemical agents, polymer-related strengtheners and fire retardants, oil field drilling minerals, catalyst carriers, filtration technologies, hydrogen storage for fuel cells and cosmetics. For certain of the aforementioned applications, management believes the Dragon Mine resource has the potential to serve as a more effective alternative to the materials upon which these current technologies are established. Other

above-mentioned applications are being developed to specifically utilize the structural characteristics of the clay resource.

The Dragon Mine property contains halloysite, kaolinite, alunite and other minerals located underground and in waste piles that are the result of previous mining operations. The geological resource survey being conducted on the Dragon Mine has involved the assessment of approximately 10,000 feet of borehole drill cores and the analysis of samples taken from the five waste piles located at the mine site. The survey has included X-ray diffraction analysis to determine the levels of halloysite, kaolinite and other minerals found in the resource. Initial studies have indicated that conventional processing may be used to separate the halloysite and kaolinite fractions from alunite and other minerals found in the Dragon Mine resource.

The geology of the deposit shows alterations of feldspar identified along side the presence of monzanite, halloysite and kaolinite. Purer halloysite found at the mine has been identified along side the presence of iron ore. The morphology of the halloysite identified at the Dragon Mine, as determined by Scanning Electron Microscopy (“SEM”) analysis, demonstrates the existence of both lath-like and tubular formations. The kaolinite present at the Dragon Mine has been determined to possess a highly crystalline structure.

Halloysite clay has been identified a value-added filler for use in polymer-based nanocomposites. The global nanocomposites market is expected to grow to \$4.0 billion by 2015. According to BCC Research, clay-filled nanocomposites are expected to represent 47% of the nanocomposites market by 2010. The U.S. Department of the Navy, represented by the Naval Research Lab (NRL”), has patented a technology that provides for the controlled release of active agents using inorganic tubules such as halloysite clay. In February 2010, The Department of the Navy gave us notice that it intends to license to us a revocable, nonassignable, co-exclusive license to practice the (i) field of use of building materials which means the use of halloysite microtubules for the elution of any and all substances from them as a biocide and (ii) the field of use of paint which means the use of halloysite microtubules for the elution of any and all substances in paints, sealers, fillers, varnishes, shellac, polyurethane coatings, and any and all “paint-like” coatings applied in liquid form to any and all surfaces for the beautification or protection of surfaces in structures or components thereof, including but not limited to, buildings, marine structures (including boats), furniture and other normally “painted” materials in the United States. We believe both the building products and paint industries provide attractive market opportunities in which to utilize the licenses described above. The U.S. Navy has also patented a technology that permits a controlled release of an active agent as an anti-scaling treatment for environments such as oil wells, an application opportunity we are considering pursuing.

In 2009, the Company entered into a development agreement with Yuri M. Lvov, Ph.D., a professor of chemistry at Louisiana Tech University and the T.C. Pipes Eminent Endowed Chair on Micro and Nanosystems at the Institute for Micromanufacturing (LaTech). The scope of the agreement includes, among other things, the development of the Dragon Mine halloysite as part of an anti-corrosion paint application in addition to the development of other emerging applications. In 2009, the Company entered into a consulting agreement with Amit Dharia, PhD, President of Transmit Technology Group, LLC of Austin, TX. Dr. Dharia has over 23 years of experience in the plastics industry focused primarily on R&D and new product development. Dr. Dharia is advising the Company with regard to its pursuit of opportunities within the polymer composite market.

Processed clay samples have been distributed to potential customers who have requested halloysite and/or halloysite-kaolinite mixtures. A number of advanced applications to which the Company plans to market its mineral resource are currently using plate-like structured clays that must undergo expensive exfoliation process to achieve proper functionality. The tubular morphology of the Dragon Mine resource does not require such an exfoliation process to achieve similar or, in many instances, greater functionality.

In addition to certain advanced applications previously mentioned, we believe the Dragon Mine resource may also be marketed to certain established, low-tech applications such as, but not limited to, fine porcelain, bone china, high-performance advanced technical ceramics, paint fillers, suspension agents, animal feed, cement hardeners, and food and pharmaceutical additives. Markets, such as fine porcelain and bone china, would likely require the Dragon

Mine clay resource be processed for increased brightness and reduced presence of titanium whereas applications, such as a cement hardener, would require a relatively unprocessed version of the Dragon Mine resource. Management, as part of its overall business strategy, will continually assess the economic feasibility of pursuing these markets.

Management believes that both existing and potential applications that utilize the Dragon Mine resource will require varying grades of clay to satisfy the unique technical requirements of each application. Some applications may require pure halloysite, composed of tubular and/or lath-shaped particles while other applications may require a grade of clay consisting of a specific halloysite-kaolinite ratio. The determination of the appropriate grade of clay will likely require significant technical cooperation between the Company and the developer of the related application. As previously mentioned, the Company signed a Memorandum of Understanding with KaMin upon which a binding toll manufacturing contract is to be developed.

## Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates since the end of our 2009 fiscal year. For detailed information on our critical accounting policies and estimates, see our financial statements and notes thereto included in this Report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

We have identified below some of our accounting policies that we consider critical to our business operations and the understanding of our results of operations. This is neither a complete list of all of our accounting policies, nor does it include all the details surrounding the accounting policies we have identified. There are other accounting policies that are significant to our company. For a more detailed discussion on the application of these and our other accounting policies, see “Note 3 – Summary of Significant Accounting Policies” included in this Report and “Note 3 – Summary of Significant Accounting Policies” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

### Use of Estimates

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

### Accounting Standards Codification

The Financial Accounting Standards Board (the “FASB”) has compiled the “Accounting Standards Codification” (the “ASC” or “Codification”), which is a new structure that takes accounting pronouncements and organizes them by approximately ninety accounting topics. The Codification is the single source of authoritative generally accepted accounting principles in the United States. All guidance included in the Codification is considered authoritative and at March 31, 2010, we had adopted such guidance.

### Impairment of Assets

FASB ASC 360-10-50 requires that long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. The Company records losses due to impairment of assets held in continuing operations, and losses on assets held for sale from impairment, which is included in net loss from discontinued operations.

### Mining Exploration and Development Costs

Land and mining property acquisitions are carried at cost. We expense prospecting and mining exploration costs. At the point when a property is determined to have proven and probable reserves, subsequent development costs are capitalized as capitalized development costs. Capitalized development costs will include acquisition costs and property development costs. When these properties are developed and operations commence, capitalized costs will be charged to operations using the units-of-production method over proven and probable reserves. Upon abandonment or sale of a mineral property, all capitalized costs relating to the specific property are written off in the period abandoned or sold and a gain or loss is recognized. At March 31, 2010 and 2009, all costs associated with the Dragon Mine have been expensed.

#### Provision for Income Taxes

Income taxes are calculated based upon the liability method of accounting in accordance with the FASB ASC 750-10-60, "Income Taxes." In accordance with FASB ASC 750-10-60, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard to allow for recognition of such an asset. In addition, realization of an uncertain income tax position must be estimated as "more likely than not" (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Further, the recognition of tax benefits recorded in the financial statements to be based on the amount most likely to be realized assuming a review by tax authorities having all relevant information.

#### Revenue Recognition

We recognize revenue in the period that the related services are performed and collectability is reasonably assured. For the year ended December 31, 2008, the Company derived substantially all of its revenues from leasing equipment and employees for mine development, site evaluation, and preparatory work. Services contracts generally took the form of fixed-price contracts. Historically, costs are expensed as incurred. All out-of-pocket costs are included in expenses. On December 31, 2008, the Company discontinued its contract mining business.

Revenue for mined halloysite clay, if any, will be recognized upon shipment and customer acceptance once a contract with a fixed and determinable fee has been established and collection is reasonably assured or the resulting receivable is deemed probable.

#### Stock Options and Warrants

We have stock option plans that provide for stock-based employee compensation, including the granting of stock options, to certain key employees. The plans are more fully described in Note 8 to the financial statements.

We have adopted the provisions of FASB ASC 505-50 and FASB ASC 718-10-50 where compensation expense is recorded for all share-based awards granted to either non-employees, or employees and directors on or after January 1, 2006. Accordingly, compensation expense has been recognized for vesting of options and warrants to consultants and directors in the accompanying statements of operations.

We account for the issuance of equity instruments (including options and warrants) to acquire goods and services based on the fair value of the goods and services or the fair value of the equity instrument at the time of issuance, whichever is more reliably measurable.

#### Recent Accounting Pronouncements

Management is evaluating the application of the following recent accounting pronouncements to our financial statements, including applicability and financial impact:

In January 2010, the FASB issued Accounting Standards Update 2010-04, Accounting for Various Topics – Technical Corrections for SEC Paragraphs. Included in the Update is clarification as to the date of issuance of a financial statement including clarification of subsequent events issues in relation to the issuance of such financial statements (FASB ASC 855-10-S99). The Company does not believe that this update will have a material impact on its financial statements.

In January 2010, the FASB issued Accounting Standards Update 2010-06, Fair Value Measurements and Disclosures, requiring disclosures for transfers in and out of Level 1 and 2 fair value measurements and descriptions for the reasons for the transfers, as well as increased disclosure requirements for activity in Level 3 fair value measurements. The

Update was issued to amend current disclosure requirements for such valuations. The Company does not believe that this update will have a material impact on its financial statements.

In February 2010, the FASB issued Accounting Standards Update 2010-09, Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements. The Update provides clearer definitions of subsequent events related to an entity that is an SEC filer, including definitions of such a filer, and the application of the topic to financial statements. In addition, the Update provides clarification as to subsequent event disclosure requirements for reissuance of financial statements. The Company does not believe that this update will have a material impact on its financial statements.

## RESULTS OF OPERATIONS

Due to a general downturn in worldwide mining activity resulting from a decline in commodity prices, the Company permanently ceased its contract mining operations in December 2008 and classified them as “discontinued” on its financial statements. The Company’s remaining operation, the exploration of its Dragon Mine property, has yet to produce any revenue and, as such, the Company generated no revenue or gross profit for the three months ended March 31, 2010 and 2009.

Total operating expenses for the three months ending March 31, 2010 were \$1,179,394 compared to \$1,370,103 for the same period ending 2009, a decrease of \$190,709 or 13.9%. The decrease was due primarily to a \$516,371, or 44.3%, decrease in general and administrative expense, partially offset by a \$326,281, or 160.7% increase in exploration costs.

Exploration costs during the quarter were \$529,213 versus \$202,932 during the same period in 2009. The majority of our exploration expenses during both quarters were related to work conducted by a geological consulting firm engaged by the Company to both produce a resource survey of the Dragon Mine and develop a mineral processing system. The 160.7% increase in exploration costs was related to management’s decision to expand its drilling program to additional areas of the Dragon Mine property, tests on which have indicated the presence of saleable clay mineral.

The decrease in general and administrative expense during the quarter was driven primarily by the reduction in legal expenses. Legal related expenses incurred during the three months ended March 31, 2010 totaled \$96,200, a decrease of approximately \$450,000 related to the elimination or reduction of costs associated with the resolution of a class action lawsuit, the implementation of an improved corporate governance infrastructure, and work related to bringing the Company into compliance with SEC filings requirements. Management believes quarterly legal expense may decline further as the need for SEC and corporate governance-related legal advice diminishes.

Net loss before discontinued operations for the three-month period ending March 31, 2010 was \$1,084,347 compared to \$1,416,034 for the comparable period in 2009, a decrease of \$331,687 or 23.4%. The decrease in loss in before discontinued operations was due primarily to a \$516,371 decline in general and administrative expense (previously described), a \$145,000 gain on the forfeiture of the stock award payable to former CEO Robert Dumont, a \$14,500 decline in the loss on the revaluation of certain stock awards, and \$28,548 in net legal settlement proceeds, partially offset by a \$326,281 increase in exploration costs (previously described) and a \$30,371 increase in interest expense related to notes issued in April, May, July and October 2009.

Net income from discontinued operations for the three months ended March 31, 2010 was \$238,382 compared to a net loss of \$47,167 for the comparable period in 2009. The \$285,549 decline in net loss from discontinued operations was due primarily to the collection of a previously recorded bad debt of \$245,507.

## LIQUIDITY AND CAPITAL RESOURCES

To date our activities have been financed through the sale of equity securities, borrowings, and, for the periods up through December 31, 2008, revenues from our contract mining operations. Until we are able to commercialize our Dragon Mine property, we intend to rely on public or private sales of equity securities, the utilization of certain credit facilities and/or the sale of non-core assets to generate the cash flow needed to fund our operations.

The Company has incurred material recurring losses from operations. At March 31, 2010, the Company had a total accumulated deficit of \$27,345,033, in addition to limited cash and unprofitable operations. For the three months ended March 31, 2010 and 2009, the Company sustained net losses before discontinued operations of \$1,084,347 and \$1,416,034, respectively. These factors indicate that the Company may be unable to continue as a going concern for a reasonable period of time. The Company's continuation as a going concern is contingent upon its ability to generate revenue and cash flow to meet its obligations on a timely basis and management's ability to raise financing and/or dispose of certain non-core assets as required. If successful, this will mitigate the factors that raise substantial doubt about the Company's ability to continue as a going concern.

Cash used by operating activities was \$591,671 during the three months ended March 31, 2010 versus \$675,259 used during the comparable period in 2009. The \$83,588 decrease in cash used during the period was due primarily to a decrease in the net loss realized during the three months ended March 31, 2010 of \$617,262, partially offset by a non-cash gain of \$145,000 realized on the forfeiture of certain stock awards, a decline in cash generated by discontinued operations of approximately \$341,000 and a decline in other non-cash items of approximately \$47,000.

Cash used by investing activities during the three months ended March 31, 2010 was \$47,486 versus \$800 during the comparable period in 2009. During the three months ended March 31, 2010, the Company used \$52,514 to purchase equipment related to the exploration of its Dragon Mine and generated \$100,000 through the sale of non-core equipment and vehicles. During the comparable period in 2009, \$800 was generated through the sale of equipment related to discontinued operations.

Cash used through financing activities was \$208,252 during the three months ended March 31, 2010 versus \$159,176 during the comparable period in 2009. The \$49,076 increase in cash used was driven primarily by the Company's payment to a former CEO of \$170,000 in exchange for a forfeiture of common stock, partially offset by \$15,754 decline in payments of certain notes payable and a \$107,480 decline in payments of leases payable related to the disposition of previously financed equipment.

At March 31, 2010, the Company had, as part of its long-term liabilities, \$2,069,624 face value of 10% Convertible PIK Notes due December 2018. The Company may sell similar notes in the future to raise cash to fund its operations.

The Company is currently marketing for sale of certain of its non-core properties located in Idaho. The potential net proceeds from the disposal of such property would be used, in part, to fund the operations of the Company.

## OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements between the Company and any other entity that have, or are reasonably 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.

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

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

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

During the evaluation of disclosure controls and procedures as of March 31, 2010, management identified material weaknesses in internal control over financial reporting, which management considers an integral component of disclosure controls and procedures. Material weaknesses identified include ineffective oversight of related party transactions, accounting for securities available for sale, accounting for options, lack of appropriate accounting procedures and personnel, journal entry approval and procedures, and management's assessment of internal control over financial reporting. As a result of the material weaknesses identified, management concluded that Applied Minerals Inc.'s disclosure controls and procedures were ineffective.

Notwithstanding the existence of these material weaknesses, Applied Minerals, Inc. believes that the condensed consolidated financial statements in this quarterly report on Form 10-Q fairly present, in all material respects, Applied Minerals, Inc.'s financial condition as of March 31, 2010 and December 31, 2009, and results of its operations and cash flows for the period ended March 31, 2010 and 2009, in conformity with United States generally accepted accounting principles (GAAP).

(b) Changes in Internal Controls.

Management continues to both assess its internal controls and implement changes to strengthen them. The steps that have been, or will be, taken by the Company to improve its internal controls include, but are not limited to, the communication of all equity transactions to the accounting function in a timely manner, the requirement of board approval of all equity transactions, the implementation of controls to ensure all invoices received by the New York and Utah locations are forwarded to the Idaho office in a timely manner, and the implementation of controls to ensure that the accounting function is informed of services or goods received before period end but not yet invoiced.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Various lawsuits, claims, proceedings and investigations are pending involving us as described below in this section. In accordance with SFAS No. 5, Accounting for Contingencies, when applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. In addition to the matters described herein, we are involved in or subject to, or may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, which in our opinion will not have a material adverse effect on our financial condition, cash flows or results of operations.

Securities Litigation

The Company, certain of its directors and former officers and employees, its prior auditor, Chisolm, Bierwolf & Nilson, LLC, and NanoClay & Technologies, Inc., its defunct, wholly owned subsidiary, are defendants in a class action filed on October 11, 2007 In Re Atlas Mining Company Securities Litigation pending in the United States District Court for the District of Idaho, Civil Action No. 07-428-N-EJL(D. Idaho) (the "Class Action"). The Class Action was filed on behalf of purchasers of the Company's publicly traded common stock during the period January 19, 2005 through October 8, 2007. The First Amended Complaint ("Complaint") alleges that the Company damaged purchasers by making material misstatements in publicly disseminated press releases and Securities and Exchange Commission filings regarding the extent of the halloysite deposit on Company property, the availability and quality of halloysite for sale, and claimed sales of halloysite. The Complaint also alleges that the Company improperly manipulated reported earnings with respect to purported halloysite sales and misrepresentations by the individual defendants as to its financial statements. The plaintiffs seek remedies under Section 10(b) of the Securities and Exchange Act and Rule 10b-5 thereunder and for violations of Section 20(a) of the Exchange Act.

On July 2, 2009, the Company entered into a Settlement Agreement ("Class Action Settlement Agreement") with the lead plaintiffs in the class action Under the terms of the Class Action Settlement Agreement the Company will pay plaintiffs \$1,250,000 (which includes fees to plaintiff's counsel), to be funded by the proceeds of an insurance policy issued by Navigators Insurance Co.(as provided below), in exchange for release of all claims against the Company, NanoClay & Technologies, Inc., and William T. Jacobson, Robert Dumont, Ronald Price and Barbara Suveg (the "Individual Defendants"). The Company will also fund up to \$75,000 to fund expenses in connection with notification to class members. The Class Action Settlement Agreement is the settlement agreement contemplated by the Memorandum of Understanding ("MOU") described in its prior response and the terms of it are consistent with the terms of such MOU. The Settlement Agreement is subject to a number of conditions including successful completion of confirmatory due diligence by the lead plaintiffs and final court approval.

Insurance Litigation

Atlas Mining Company v. Navigators Insurance Company et al.

Our complaint, filed in federal district court in Idaho, seeks coverage ("Coverage Claim") for claims in connection with the securities litigation described above under (A) a primary \$5,000,000 D&O liability insurance policy issued by Navigators Insurance Company ("Navigators") on October 1, 2007 ("Navigators \$5,000,000 Policy), and (B) a \$5,000,000 excess D&O liability policy issued by RSUI Indemnity Company ("RSUI") effective October 1, 2007. The Company has asserted claims for declaratory judgment, specific performance, and breach of contract, as well as claims alleging bad faith, against Navigators and RSUI. The Company also has asserted claims of negligence and fraud against a broker involved with the alleged issuance of the policies. This case was removed to federal court. Navigators, RSUI, and the broker are vigorously defending the lawsuit and have filed answers in federal court, arguing in part that such policies are not effective and pleading other affirmative defenses, such as accord and

satisfaction.

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Navigators Insurance Co. v. Atlas Mining Company, et. al.

This is an interpleader complaint filed by Navigators in federal district court in Idaho with respect to our coverage claims and those of certain of our former officers and directors arising from the securities litigation described above. The interpleader complaint alleges that Navigators issued a D&O liability policy to the Company for the period October 17, 2006 and October 17, 2007 that afforded \$2 million in limits. Navigators alleges that, based on the current rate of expenditures, the defense and investigation costs alone will soon exceed the policy's \$2 million limit of liability, excess of applicable retentions, and the Company disagrees with certain of its former officers and directors on the appropriate priority of payments under the policy. As such, Navigators alleges that it was subject to multiple competing demands for the limits of the Policy. Based on such allegations, Navigators is seeking a court order permitting Navigators to tender \$2 million into the registry of the Court and to be discharged from liability. The Company filed a Motion to Dismiss on June 17, 2008, citing Navigators' failure to advance defense costs under such policy and arguing that Navigators is not subject to multiple liability under the policy. The parties have filed several consent motions to stay the proceedings in this action. The court entered an indefinite stay on December 11, 2008 that will remain in effect until any party seeks to re-open the matter because (a) the parties have reached an agreement to resolve the matter, (b) the Coverage Action is resolved, or (c) a party seeks to terminate the stay and renew litigation.

Related to the Class Action Settlement, effective July 8, 2009, the Company entered into a Settlement Agreement and Release with Navigators, RSUI Indemnity Company and RSUI Group, Alexander, Morford & Woo, Inc., and the individual defendants listed above in settlement of the insurance litigation. Pursuant to this agreement (i) Navigators will deliver \$1,250,000 into a court registry, which will then be used upon final court approval of the Class Action Settlement to fund the \$1,250,000 payment to class action plaintiffs, (ii) Navigators will deliver \$750,000 to the Company for defense and investigative costs in connection with the Class Action and related matters, which Atlas will use in part to pay the individual defendants their costs in the class action and (iii) all claims under the insurance litigation will be released upon final court approval of the Class Action Settlement.

#### Forbearance Agreement

The Company and certain of its former officers were defendants in a class action In Re Atlas Mining Company Securities Litigation (the "Class Action"), whose settlement has been approved by the court. As an accommodation to facilitate the settlement of the Class Action, the following persons (the "Forbearing Shareholders") entered into a Forbearance Agreement whereby they agreed not to submit claims for damages relating to shares that they own or control and that would otherwise be eligible to participate in the settlement: David Taft; The IBS Turnaround (QP) Fund (A Limited Partnership), the IBS Turnaround Fund (A Limited Partnership), The IBS Opportunity Fund (BVI), Ltd. (the prior three hereafter collectively "IBS"); Andre Zeitoun (the Company's CEO), Chris Carney (the Company's Interim CFO), and Eric Basroon (an employee of Material Advisors LLC). The Forbearance Agreement provided that:

In consideration for the forbearance and release, relinquishment, and discharging set forth above, the Company, by and through the disinterested directors, may, in its sole discretion, choose to provide an amount of compensation to the Forbearing Shareholders that it determines in its business judgment is appropriate. Compensation provided to Forbearing Shareholders shall not exceed the amount to which the Forbearing Shareholders would be entitled if they were Settling Class Members who submitted claims and were compensated under the Plan of Allocation.

Prior to the time that the Forbearing Shareholders entered into the Forbearance Agreement, certain members of the Board of Directors, without taking formal action as a Board, acknowledged that the Forbearing Shareholders were accommodating the Company in a manner not required and should be compensated "as if" they had submitted claims as class members in the Settlement and this acknowledgement was communicated to the Forbearing Shareholders.

The Board subsequently appointed a committee of disinterested directors to determine whether compensation should be paid, the amount of any such compensation, and whether to pay compensation in cash or Common Stock. The

committee consists of John Levy, Morris Weiss, and Evan Stone.

On March 29, 2010, the committee adopted resolutions designed to treat the Forbearing Shareholders as if they had participated in the settlement.

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To achieve this goal, damages of each Forbearing Shareholder were computed using the formula for determining damages in the Class Action. Damages per share are lesser of \$0.84 or the difference between the purchase price and \$0.80. The damages for each Forbearing Shareholders are approximately as follows: Taft - \$0; IBS - \$3,564,657; Zeitoun - \$479,411; Carney - \$231,735; and Basroon - \$89,250. The aggregate damages for all of the Forbearing Shareholders are approximately \$4,365,053.

The amount payable as compensation to the Forbearing Shareholders in the aggregate will be an amount equal to the Net Settlement Fund in the Class Action (approximately \$800,000) multiplied by the fraction in which the numerator is the aggregate damages of the Forbearing Shareholders and the denominator is the sum of (i) the aggregate damages of the Forbearing Shareholders and (ii) the dollar amount of claims actually submitted by shareholders against the Net Settlement Fund in the Class Action (this amount is different form the total damages of all shareholders other than the Forbearing Shareholders).

The deadline for submitting claims in the Class Action is May 6, 2010, so the amount that will be payable to the Forbearing Shareholders will not be known until that time. The amount payable to the Forbearing Shareholders varies depending on the dollar amount of claims actually submitted in the Class Action, the higher the dollar amount of claims submitted in the Class Action, the lower the amount payable to the Forbearing Shareholders. By way of example, if no claims at all were submitted by shareholders in the Class Action, the amount payable to all of the Forbearing Shareholders would be \$800,000; if \$3,000,000 in claims are submitted in the Class Action, the amount payable to the Forbearing Shareholders would be \$474,136.

In order to minimize the amount payable to the Forbearing Shareholders, the committee of disinterested directors has determined to take action prior to May 6, 2010 to increase the dollar amount of claims submitted by shareholders in the Class Action.

The committee of disinterested directors has determined that compensation to the Forbearing Shareholders will be paid in Common Stock of the Company. The shares will be valued at the market price of the Company's Common Stock as of the closing price on the first date on which the distribution agent in the Class Action sends or delivers distributions from the Net Settlement Fund to shareholders who have submitted claims.

If the Forbearing Shareholders had not entered into the Forbearance Agreement, they believe that the Company may not have been able to settle the Class Action on the favorable terms that it did. The damages suffered by the Forbearing Shareholders, based on an estimate of total damages provided by counsel to the plaintiffs in the Class Action, represented a majority of the total damages of the class. The plaintiff's counsel required a representation by the Company that any damages paid by the Company to the Forbearing Shareholders not exceed amounts granted to the class. The Forbearing Agreement had the effect of making the entire Net Settlement Fund available to other shareholders. The Forbearing Shareholders believe that if they did not enter into the Forbearance Agreement, plaintiffs would have insisted on a significantly higher settlement amount and this in all likelihood would have forced the Company to raise additional capital by selling stock at, what they believed to be, unfavorable terms at the time.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits.

The following exhibits are included in this report:

| Exhibit Number | Description of Exhibits  |
|----------------|--|
| 31.1           | Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer |
| 31.2           | Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer |
| 32.1           | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer                         |
| 32.2           | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer                         |

SIGNATURES

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

APPLIED MINERALS INC

Dated: May 17, 2010

/s/ ANDRE ZEITOUN  
By: Andre Zeitoun  
Chief Executive Officer

Dated: May 17, 2010

/s/ CHRISTOPHER T. CARNEY  
By: Christopher T. Carney  
Interim Chief Financial Officer

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