

Applied Minerals, Inc.  
Form 10-Q  
August 15, 2011

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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 June 30, 2011

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 1101, 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:

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

YESx NO

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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 Reporting<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, \$0.001 par value per share, outstanding as of August 3, 2011 was 75,686,825.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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APPLIED MINERALS, INC. AND SUBSIDIARY  
(An Exploration Stage Company)

SECOND QUARTER 2011 REPORT ON FORM 10-Q

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## PART I. FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

|                                | June 30,<br>2011<br>(Unaudited) | December<br>31,<br>2010<br>(Restated) |
|--------------------------------|---------------------------------|---------------------------------------|
| Current Assets                 |                                 |                                       |
| Cash and cash equivalents      | \$3,509,933                     | \$1,642,340                           |
| Accounts receivable            | 21,035                          | 61,275                                |
| Mining supplies inventory      | - 0 -                           | 3,503                                 |
| Deposits and prepaids          | 205,948                         | 178,738                               |
| Total Current Assets           | 3,736,916                       | 1,885,856                             |
| Property and Equipment         |                                 |                                       |
| Land and tunnels               | 523,729                         | 523,729                               |
| Land improvements              | 164,758                         | 164,758                               |
| Buildings                      | 432,997                         | 432,997                               |
| Mining equipment               | 726,523                         | 588,523                               |
| Milling equipment              | 336,146                         | 333,483                               |
| Laboratory equipment           | 67,728                          | 67,728                                |
| Office furniture and equipment | 29,398                          | 27,419                                |
| Vehicles                       | 86,623                          | 75,013                                |
| Less: Accumulated Depreciation | (601,870 )                      | (481,364 )                            |
| Total Property and Equipment   | 1,766,032                       | 1,732,286                             |
| Other Assets                   |                                 |                                       |
| Assets held for sale           | 445,180                         | 450,042                               |
| Deferred financing cost        | 137,756                         | 146,939                               |
| Total Other Assets             | 582,936                         | 596,981                               |
| <b>TOTAL ASSETS</b>            | <b>\$6,085,884</b>              | <b>\$4,215,123</b>                    |

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

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

|  | June 30,<br>2011<br>(Unaudited) | December<br>31,<br>2010<br>(Restated) |
|--|---------------------------------|---------------------------------------|
| <b>Current Liabilities</b>   |                                 |                                       |
| Accounts payable and accrued liabilities   | \$293,017                       | \$266,139                             |
| Stock awards payable   | 178,000                         | 80,000                                |
| Current portion of notes payable   | 153,483                         | 206,209                               |
| Current portion of leases payable  | 85,836                          | 167,956                               |
| <b>Total Current Liabilities</b>   | <b>710,336</b>                  | <b>720,304</b>                        |
| <b>Long-Term Liabilities</b>   |                                 |                                       |
| Long-term portion of notes payable   | 287,809                         | 361,295                               |
| Long-term portion of leases payable  | - 0 -                           | 10,094                                |
| Convertible debt (PIK Notes)   | 3,250,786                       | 4,683,624                             |
| <b>Total Long-Term Liabilities</b>   | <b>3,538,595</b>                | <b>5,055,013</b>                      |
| <b>Other Liabilities</b>   |                                 |                                       |
| Liabilities from discontinued operations   | - 0 -                           | 1,152                                 |
| <b>Total Other Liabilities</b>   | <b>- 0 -</b>                    | <b>1,152</b>                          |
| <b>TOTAL LIABILITIES</b>   | <b>4,248,931</b>                | <b>5,776,469</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, 75,677,789 and 69,704,393 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively | 75,679                          | 69,704                                |
| Additional paid-in capital   | 36,922,558                      | 29,860,040                            |
| Accumulated deficit prior to the exploration stage   | (20,009,496)                    | (20,009,496)                          |
| Accumulated deficit during the exploration stage   | (15,204,104)                    | (11,533,915)                          |
| <b>Total Applied Minerals, Inc. stockholders' equity (deficit)</b>   | <b>1,784,637</b>                | <b>(1,613,667 )</b>                   |
| Non-controlling interest   | 52,316                          | 52,321                                |
| <b>Total Stockholders' Equity (Deficit)</b>  | <b>1,836,953</b>                | <b>(1,561,346 )</b>                   |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  | <b>\$6,085,884</b>              | <b>\$4,215,123</b>                    |

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
(An Exploration Stage Mining Company)  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|   | For the three months ended |             | For the six months ended |             | For the<br>Period<br>January 1,<br>2009<br>(Beginning<br>of<br>Exploration<br>Stage)<br>through<br>June 30,<br>2011 |
|---|----------------------------|-------------|--------------------------|-------------|---|
|   | June 30                    |             | June 30                  |             |   |
|   | 2011                       | 2010        | 2011                     | 2010        |   |
| REVENUES  | \$18,699                   | \$- 0 -     | \$63,167                 | \$0 -       | \$63,167  |
| COST OF SALES   | (11,890 )                  | - 0 -       | (32,965 )                | - 0 -       | (32,965 )   |
| Gross Profit  | 6,809                      | - 0 -       | 30,202                   | - 0 -       | 30,202  |
| <b>OPERATING (INCOME)</b>                             |                            |             |                          |             |   |
| <b>EXPENSES:</b>                                      |                            |             |                          |             |   |
| Exploration costs                                     | 640,176                    | 465,393     | 1,311,030                | 994,606     | 4,917,985   |
| General and administrative                            | 1,105,373                  | 623,060     | 2,013,024                | 1,273,193   | 9,187,285   |
| (Gain) loss from disposition<br>of land and equipment | - 0 -                      | - 0 -       | (1,000 )                 | - 0 -       | (4,523 )  |
| Loss on impairment of<br>equipment                    | - 0 -                      | 2,270       | - 0 -                    | 2,270       | 55,122  |
| Total Operating Expenses                              | 1,745,549                  | 1,090,723   | 3,323,054                | 2,270,069   | 14,155,869  |
| Net Operating Loss                                    | (1,738,740)                | (1,090,723) | (3,292,852)              | (2,270,069) | (14,125,667)  |
| <b>OTHER INCOME (EXPENSE):</b>                        |                            |             |                          |             |   |
| Interest income                                       | 283                        | 184         | 505                      | 415         | 1,910   |
| Interest expense                                      | (125,244 )                 | (64,413 )   | (257,390 )               | (123,951 )  | (815,991 )  |
| Sale of clay samples                                  | - 0 -                      | 3,750       | - 0 -                    | 3,750       | 10,943  |
| Refund of insurance premium                           | (2,531 )                   | 6,370       | - 0 -                    | 6,370       | 20,156  |
| Gain on stock award forfeiture                        | - 0 -                      | - 0 -       | - 0 -                    | 145,000     | 145,000   |
| Gain (loss) on revaluation<br>of stock awards         | (97,000 )                  | (19,000 )   | (98,000 )                | (36,000 )   | (270,500 )  |
| Net proceeds (expenses)<br>from legal settlement      | - 0 -                      | - 0 -       | - 0 -                    | 28,547      | (173,325 )  |
| Amortization of convertible<br>debt discount          | (4,591 )                   | - 0 -       | (9,183 )                 | (2,194 )    | (377,585 )  |
| Gain on settlement of debt                            | - 0 -                      | - 0 -       | - 0 -                    | - 0 -       | 333,502   |
| Other income (expense)                                | (1,479 )                   | (293 )      | (7,520 )                 | (293 )      | (5,906 )  |
| Total Other Income (Expense)                          | (230,562 )                 | (73,402 )   | (371,588 )               | 21,644      | (1,131,796 )  |



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|   |               |               |               |               |                |
|---|---------------|---------------|---------------|---------------|----------------|
| Loss from exploration stage,<br>before income taxes               | (1,969,302)   | (1,164,125)   | (3,664,440)   | (2,248,425)   | (15,257,463)   |
| Provision (benefit) for<br>income taxes                           | - 0 -         | - 0 -         | - 0 -         | - 0 -         | - 0 -          |
| Net Loss from Exploration Stage<br>Before Discontinued Operations | (1,969,302)   | (1,164,125)   | (3,664,440)   | (2,248,425)   | (15,257,463)   |
| Net income (loss) from<br>discontinued operations                 | (4,862 )      | (3,704 )      | (5,772 )      | 234,678       | 53,382         |
| Net loss from exploration stage<br>after discontinued operations  | (1,974,164)   | (1,167,829)   | (3,670,212)   | (2,013,747)   | (15,204,081)   |
| Net loss attributable to<br>the non-controlling interest          | (1 )          | (6 )          | 23            | (13 )         | (23 )          |
| Net Loss Attributable to<br>Applied Minerals, Inc                 | \$(1,974,165) | \$(1,167,835) | \$(3,670,189) | \$(2,013,760) | \$(15,204,104) |

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
 (An Exploration Stage Mining Company)  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (Unaudited)  
 (Continued)

|  | For the three months ended<br>June 30 |            | For the six months ended<br>June 30 |            |
|--|---------------------------------------|------------|-------------------------------------|------------|
|  | 2011                                  | 2010       | 2011                                | 2010       |
| <b>Earnings Per Share Information (Basic and Diluted):</b>                               |                                       |            |                                     |            |
| Net loss per share before discontinued operations attributable to Applied Minerals, Inc. |                                       |            |                                     |            |
| common shareholders  | \$(0.03 )                             | \$(0.02 )  | \$(0.05 )                           | \$(0.03 )  |
| Discontinued operations attributable to Applied Minerals, Inc. common shareholders       |                                       |            |                                     |            |
| Minerals, Inc. common shareholders   | (0.00 )                               | (0.00 )    | (0.00 )                             | (0.00 )    |
| Net Loss Per Share Attributable to Applied Minerals, Inc. common shareholders            |                                       |            |                                     |            |
| Applied Minerals, Inc. common shareholders   | \$(0.03 )                             | \$(0.02 )  | \$(0.05 )                           | \$(0.03 )  |
| <b>Weighted Average Shares Outstanding (basic and diluted)</b>                           |                                       |            |                                     |            |
| (basic and diluted)  | 74,254,258                            | 67,273,239 | 71,648,777                          | 68,045,625 |

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

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

|   | For the six months ended<br>June 30 |                    | For the<br>Period<br>January 1,<br>2009<br>(Beginning<br>of<br>Exploration<br>Stage)<br>through<br>June 30,<br>2011 |
|---|-------------------------------------|--------------------|---|
|   | 2011                                | 2010<br>(Restated) |   |
| Cash flows from operating activities:                                     |                                     |                    |   |
| Net loss  | \$(3,670,212)                       | \$(2,013,747)      | \$(15,204,081)  |
| Adjustments to reconcile net loss to<br>net cash used in operations:      |                                     |                    |   |
| Depreciation  | 120,506                             | 72,510             | 407,098   |
| Amortization of deferred financing costs                                  | 9,183                               | - 0 -              | 12,244  |
| Amortization of discount – PIK Notes                                      | - 0 -                               | 2,194              | 367,534   |
| Issuance of PIK Notes in payment of interest                              | 221,881                             | 117,552            | 742,867   |
| Stock issued for director and consulting services                         | 91,294                              | 15,000             | 173,623   |
| Fair value of warrants and options<br>issued to consultants and directors | 937,474                             | 96,893             | 1,673,377   |
| Loss on revaluation of stock awards                                       | 98,000                              | 36,000             | 270,500   |
| Gain on stock award forfeiture  | - 0 -                               | (145,000 )         | (145,000 )  |
| Gain on disposition of assets   | (1,000 )                            | - 0 -              | (4,523 )  |
| Loss on impairment of assets  | - 0 -                               | 2,270              | 62,019  |
| Change in operating assets and liabilities:                               |                                     |                    |   |
| (Increase) Decrease in:   |                                     |                    |   |
| Accounts receivable   | 40,240                              | (3,750 )           | (20,991 )   |
| Mining supplies inventory   | 3,503                               | (22,444 )          | - 0 -   |
| Deposits and prepaids   | (27,210 )                           | 25,994             | 76,358  |
| Increase (Decrease) in:   |                                     |                    |   |
| Accounts payable and accrued expenses                                     | 26,878                              | 181,337            | 198,058   |
| Net cash used by discontinued operations                                  | 3,710                               | 3,825              | 608,401   |
| Net cash used by operating activities                                     | (2,145,753)                         | (1,631,366)        | (10,782,516)  |
| Cash flows from investing activities:                                     |                                     |                    |   |
| Purchases of land improvements  | - 0 -                               | - 0 -              | (72,923 )   |
| Purchases of equipment and vehicles                                       | (154,252 )                          | (55,014 )          | (336,936 )  |
| Proceeds from sale of assets  | 1,000                               | 100,000            | 151,000   |
| Net cash provided by discontinued operations                              | - 0 -                               | - 0 -              | 434,670   |

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|  |             |             |             |
|--|-------------|-------------|-------------|
| Net cash provided by investing activities        | (153,252 )  | 44,986      | 175,811     |
| Cash flows from financing activities:            |             |             |             |
| Payments on notes payable                        | (126,212 )  | (62,214 )   | (438,833 )  |
| Payments on leases payable                       | (92,190 )   | (26,159 )   | (345,228 )  |
| Proceeds from insurance settlement               | - 0 -       | - 0 -       | 115,000     |
| Proceeds from notes payable                      | - 0 -       | - 0 -       | 124,129     |
| Proceeds from PIK notes payable                  | - 0 -       | 1,500,000   | 9,600,000   |
| Proceeds from sale of common stock               | 4,385,000   | - 0 -       | 4,385,000   |
| Payments for legal settlement                    | - 0 -       | (170,000 )  | (170,000 )  |
| Net cash used by discontinued operations         | - 0 -       | (8,928 )    | (56,431 )   |
| Net cash provided by financing activities        | 4,166,598   | 1,232,699   | 13,213,637  |
| Net increase (decrease) in cash                  | 1,867,593   | (353,681 )  | 2,606,932   |
| Cash and cash equivalents at beginning of period | 1,642,340   | 1,584,866   | 903,001     |
| Cash and cash equivalents at end of period       | \$3,509,933 | \$1,231,185 | \$3,509,933 |

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

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

|  | For the six months ended<br>June 30 |             | For the<br>Period<br>January 1,<br>2009<br>(Beginning<br>of<br>Exploration<br>Stage)<br>through<br>June 30,<br>2011 |
|--|-------------------------------------|-------------|---|
|  | 2011                                | 2010        |   |
| <b>Cash Paid For:</b>  |                                     |             |   |
| Interest   | \$28,602                            | \$16,322    | \$57,082  |
| Income Taxes   | \$160                               | \$- 0 -     | \$710   |
| <b>Supplemental Disclosure of Non-Cash<br/>Investing and Financing Activities:</b> |                                     |             |   |
| Conversion of debt and<br>accrued interest to common stock                         | \$1,587,638                         | \$2,343,922 | \$8,141,059   |
| Equipment financed on lease  | \$- 0 -                             | \$197,000   | \$197,000   |

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
(An Exploration Stage Mining Company)  
Condensed Notes to the Consolidated Financial Statements  
June 30, 2011 and 2010

NOTE 1 – BASIS OF PRESENTATION AND GOING CONCERN

The interim financial statements as of June 30, 2011, and for the periods ended June 30, 2011 and 2010, and cumulative from inception of the exploration stage through June 30, 2011, 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 June 30, 2011 and the results of its operations and its cash flows for the periods ended June 30, 2011 and 2010, and cumulative from inception of the exploration stage through June 30, 2011. These results are not necessarily indicative of the results expected for the year ending December 31, 2011. 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, 2010, filed with the Securities and Exchange Commission ("SEC") for additional information, including significant accounting policies.

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 June 30, 2011, the Company had aggregate accumulated deficits prior to and during the exploration stage of \$35,213,600, in addition to limited cash and unprofitable operations. For the six months ended June 30, 2011 and 2010, the Company sustained net losses before discontinued operations of \$3,664,440 and \$2,248,425, respectively. For the three months ended June 30, 2011 and 2010, the Company sustained net losses before discontinued operations of \$1,969,302 and \$1,164,125, 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 six months period ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The consolidated financial information as of December 31, 2010 included herein has been derived from the Company's audited consolidated financial statements as of, and for the fiscal year ended December 31, 2010.

NOTE 2 – ORGANIZATION AND DESCRIPTION OF BUSINESS

The Company owns the Atlas Mine, a consolidation of several patented mining claims located in the Coeur d'Alene Mining District near Mullan, Idaho, and the Dragon Mine, a halloysite clay property located in Juab County, Utah. The Company is currently focused on the commercialization of the Dragon Mine property while actively seeking to dispose of the idle Atlas Mine property.

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.

#### Fair Value

The fair value of the Company's financial instruments reflects the amounts that the Company estimates to receive in connection with the sale of an asset or paid in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). For financial assets and liabilities that are periodically re-measured to fair value, the Company discloses a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into the following three levels:

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

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

Level 3 – unobservable inputs

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses, approximate the fair value of the respective assets and liabilities at June 30, 2011 and December 31, 2010 based upon the short-term nature of the assets and liabilities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of short and long-term notes payable approximate fair value.

APPLIED MINERALS, INC. AND SUBSIDIARY  
(An Exploration Stage Mining Company)  
Condensed Notes to the Consolidated Financial Statements  
June 30, 2011 and 2010

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 June 30, 2011 and 2010, all costs associated with the Company's mine have been expensed.

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.

Recent Accounting Pronouncements

In January 2010, the FASB issued further guidance under ASC No. 820, Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 requires disclosures about the transfers of investments between levels in the fair value hierarchy and disclosures relating to the reconciliation of fair value measurements using significant unobservable inputs (level 3 investments). ASC 820 is effective for the fiscal years and interim periods beginning after December 15, 2010. The Company adopted the update on January 1, 2011. The pronouncement did not have a material impact on the Company's consolidated financial statements.

Restatements

Certain amounts in the 2010 financial statements have been restated to conform to the 2011 presentation to more appropriately account for expenses related to deferred financing costs. This restatement had no effect on previously reported results of accumulated deficit.

NOTE 4 – DISCONTINUED OPERATIONS

The Company permanently discontinued its contract mining operations. There are no plans to resume the contract mining business.

The Company has identified assets attributed to the discontinued operation that are being held for sale or have been identified as part of the discontinued operation and have been identified as such. Assets at June 30, 2010 and



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December 31, 2010 attributed to the discontinued operation are as follows:

|   | June 30,<br>2011 | December<br>31,<br>2010 |
|---|------------------|-------------------------|
| Property and equipment                    | \$445,180        | \$450,042               |
| Total assets from discontinued operations | \$445,180        | \$450,042               |

Liabilities at June 30, 2011 and December 31, 2010 attributed to the discontinued operations are as follows:

|  | June 30,<br>2011 | December<br>31,<br>2010 |
|--|------------------|-------------------------|
| Accounts payable and accrued liabilities       | \$- 0 -          | \$1,152                 |
| Total liabilities from discontinued operations | \$- 0 -          | \$1,152                 |

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## NOTE 4 – DISCONTINUED OPERATIONS (CONTINUED)

Income (loss) after discontinued operations for the three and six months ended June 30, 2011 and 2010 was calculated as follows:

|  | For the three months<br>ended<br>June 30, |            | For the six months ended<br>June 30, |           |
|--|---|------------|--------------------------------------|-----------|
|  | 2011                                      | 2010       | 2011                                 | 2010      |
| Revenues from discontinued operations          | \$- 0 -                                   | \$- 0 -    | \$- 0 -                              | \$- 0 -   |
| Cost of goods sold                             | - 0 -                                     | - 0 -      | - 0 -                                | - 0 -     |
| General and administrative expenses            | (4,862 )                                  | (3,704 )   | (5,772 )                             | (10,829 ) |
| Collection of previously recorded bad debt     | - 0 -                                     | - 0 -      | - 0 -                                | 245,507   |
| Loss on disposal of assets                     | - 0 -                                     | - 0 -      | - 0 -                                | - 0 -     |
| Loss on impairment of assets                   | - 0 -                                     | - 0 -      | - 0 -                                | - 0 -     |
| Income (loss) from discontinued operations     | (4,862 )                                  | (3,704 )   | (5,772 )                             | 234,678   |
| Income tax liability                           | - 0 -                                     | - 0 -      | - 0 -                                | - 0 -     |
| Net income (loss) from discontinued operations | \$(4,862 )                                | \$(3,704 ) | \$(5,772 )                           | \$234,678 |

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 carry-forwards 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 150,000 shares in total to an Executive Vice President as part of his employment agreement. 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.

For the three months ended June 30, 2011, the Company realized a loss on the revaluation of the remaining stock award. For the six months ended June 30, 2011, the Company realized a loss on the revaluation of the remaining stock award. The value of the outstanding stock awards at June 30, 2011 and December 31, 2010 were \$178,000 and \$80,000, respectively.

## NOTE 6 – CONVERTIBLE DEBT (PIK NOTES)

Between December 31, 2008 and October 2010, 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 note holder at any time there is sufficient authorized unissued common stock of the Company available for conversion. The PIK Notes, except those issued in October 2010, 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. The Notes issued in October 2010 cannot be converted by the Company for one year from the date of issuance

During the six months ended June 30, 2011, PIK Notes representing principal and accrued interest of \$1,654,725 were converted by the Company into 1,654,725 shares of the Company's common stock.

#### Deferred Financing Costs

In connection with the convertible debt issued during October 2010, the Company recorded the financing costs paid to a third party in the amount of \$150,000 as deferred financing costs. These costs are being amortized over the term of the debt. The Company amortizes the deferred financing costs using straight-line over the life of the debt, which approximates the effective interest rate. In the event of conversion before note maturity, any remaining costs are immediately expensed. During the six months ended June 30, 2011, total expense related to deferred financing costs was \$9,183. As of June 30, 2011 and December 31, 2010, there was \$137,756 and \$146,939, respectively of deferred financing costs remaining on Convertible PIK Notes.

#### Mandatory Conversion

In May 2011, the Company mandatorily converted the May 2010 convertible debt and unpaid interest. Upon conversion, 1,654,725 shares of the Company's common stock were issued for the conversion of the notes.

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NOTE 7 – STOCKHOLDERS’ EQUITY

Preferred Stock

The Company is authorized to issue 10,000,000 shares of noncumulative, non-voting, nonconvertible preferred stock, \$0.001 par value per share. At June 30, 2011 and December 31, 2010, 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 June 30, 2011 and December 31, 2010, 75,667,789 and 69,704,393 shares were issued and outstanding, respectively.

During the six months ended June 30, 2011, the Company issued a total of 100,301 shares of restricted, common stock to directors and consultants as payment of fees. The value of such was recorded at \$89,344. During the six months ended June 30, 2011, a warrant holder received 5,570 shares of the Company’s common stock through a cashless exercise for consulting fees valued at \$1,950. Also during the six months ended June 30, 2011, the Company sold a total of 4,212,500 shares of common stock at pricing between \$1.25 and \$1.53 per share, collecting a total of \$4,385,000. A portion of these shares were purchased by a related party (See Note 10).

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.

Non-controlling Interest

The Company applied non-controlling interest accounting for the period ended June 30, 2011, 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, 2010                     | \$52,321 |
| Net (loss) gain attributable to non-controlling interest | (5 )     |
| Ending balance, June 30, 2011                            | \$52,316 |

NOTE 8 – OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK

Outstanding Stock Warrants

The fair value of each of the Company’s stock warrant awards is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. Expected volatility is based on an average of historical volatility of the Company’s common stock. The risk-free interest rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. The Company uses historical data to estimate forfeitures within its valuation model. The significant assumptions relating to the valuation of the Company’s warrants for the six months ended June 30, 2011 were as follows:

2011

|                         |              |
|-------------------------|--------------|
| Dividend Yield          | 0%           |
| Expected Life           | 5 – 10 years |
| Expected Volatility     | 100%         |
| Risk Free Interest Rate | 2.96%        |

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

|                                  | June 30, 2011 |  |
|----------------------------------|---------------|--|
|                                  | Shares        | Weighted<br>Average<br>Exercise<br>Price |
| Outstanding at December 31, 2010 | 580,187       | \$0.84                                   |
| Issued                           | 727,379       | \$1.02                                   |
| Exercised                        | (10,000 )     | \$( 0.35 )                               |
| Forfeited                        | - 0 -         | - 0 -                                    |
| Expired                          | - 0 -         | - 0 -                                    |
| Outstanding at June 30, 2011     | 1,297,566     | \$0.93                                   |
| Exercisable at June 30, 2011     | 898,921       |  |

During the six months ended June 30, 2011, the Company granted 727,379 warrants to purchase the Company's common stock with an average exercise price of \$1.02. Of the 727,379 warrants granted, 204,253 vested during the six months ended June 30, 2011, and the remaining 523,126 warrants will vest over nine months, or through March 31, 2012. The intrinsic value of the outstanding warrants at June 30, 2011 was \$1,085,975.

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## NOTE 8 – OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK (CONTINUED)

## Outstanding Stock Warrants (continued)

A summary of the status of the warrants outstanding at June 30, 2011 is presented below:

| Exercise Price | Warrants Outstanding |                  |                            | Weighted Average Exercise Price | Warrants Exercisable |                                 |
|----------------|----------------------|------------------|----------------------------|---------------------------------|----------------------|---------------------------------|
|                | Number Outstanding   | Weighted Average | Remaining Contractual Life |                                 | Number Exercisable   | Weighted Average Exercise Price |
| \$0.35         | 90,000               |                  | 3.75 years                 | \$0.35                          | 90,000               | \$0.35                          |
| \$0.78         | 213,402              |                  | 4.58 years                 | \$0.78                          | 88,918               | \$0.78                          |
| \$0.80         | 264,668              |                  | 4.50 years                 | \$0.80                          | 264,668              | \$0.80                          |
| \$1.00         | 340,000              |                  | 4.25 years                 | \$1.00                          | 340,000              | \$1.00                          |
| \$1.15         | 461,340              |                  | 9.75 years                 | \$1.15                          | 115,335              | \$1.15                          |
|                | 1,369,410            |                  |                            |                                 | 898,921              |                                 |

At June 30, 2011, the total compensation of \$500,864 for unvested shares is to be recognized over the next 9 months on a weighted average basis. Compensation expense of \$364,381 has been recognized for the vesting of warrants to non-related parties in the accompanying statements of operations for the six months ended June 30, 2011.

## Outstanding Stock Options

The Company is authorized to issue stock options under the existing stock option plan approved by stockholders.

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

The expected term of awards granted is derived from historical experience under the Company's stock-based compensation plans and represents the period of time that awards granted are expected to be outstanding.

The significant assumptions relating to the valuation of the Company's options for the six months ended June 30, 2011 and 2010 were as follows:

|                         | 2011         | 2010      |
|-------------------------|--------------|-----------|
| Dividend Yield          | 0%           | 0%        |
| Expected Life           | 5 – 10 years | 1.5 years |
| Expected Volatility     | 101 – 105%   | 120%      |
| Risk Free Interest Rate | 2.02 – 3.75% | 0.4%      |

A summary of the status and changes of the options granted under stock option plans and other agreements for the period ended June 30, 2011 is as follows:

|                                  | Shares     | Weighted<br>Average<br>Exercise<br>Price |
|----------------------------------|------------|--|
| Outstanding at December 31, 2010 | 7,593,277  | \$0.70                                   |
| Granted                          | 3,205,134  | \$0.83                                   |
| Exercised                        | - 0 -      | - 0 -                                    |
| Forfeited                        | - 0 -      | - 0 -                                    |
| Expired                          | - 0 -      | - 0 -                                    |
| Outstanding at June 30, 2011     | 10,798,411 | \$0.74                                   |
| Exercisable at June 30, 2011     | 6,631,303  |  |

During the six months ended June 30, 2011, the Company issued 3,205,134 options to purchase the Company's common stock with an average exercise price of \$0.83. Of the 3,205,134 options granted, 300,481 options will vest in four equal tranches, quarterly, and vesting began March 1, 2011. The remaining 2,904,653 options granted will begin vesting January 1, 2012, and shall vest equally over twelve months.

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## NOTE 8 – OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK (CONTINUED)

## Outstanding Stock Options (continued)

A summary of the status of the options outstanding at June 30, 2011 is presented below:

| Exercise Price | Options Outstanding |                                 |             | Weighted Average Exercise Price | Options Exercisable |                                 |
|----------------|---------------------|---------------------------------|-------------|---------------------------------|---------------------|---------------------------------|
|                | Number Outstanding  | Weighted Average Remaining Life | Contractual |                                 | Number Exercisable  | Weighted Average Exercise Price |
| \$0.65-\$0.71  | 75,000              |                                 | 3.00 years  | \$0.69                          | 75,000              | \$0.69                          |
| \$0.70         | 7,358,277           |                                 | 8.25 years  | \$0.70                          | 6,261,063           | \$0.70                          |
| \$0.83         | 3,205,134           |                                 | 4.75 years  | \$0.83                          | 150,240             | \$0.83                          |
| \$0.90         | 100,000             |                                 | 4.25 years  | \$0.90                          | 100,000             | \$0.90                          |
| \$1.00         | 60,000              |                                 | 5.00 years  | \$1.00                          | 45,000              | \$1.00                          |
|                | 10,798,411          |                                 |             |                                 | 6,631,303           |                                 |

At June 30, 2011, the total compensation of \$1,776,711 for unvested shares is to be recognized over the next 1.50 years on a weighted average basis.

Compensation expense of \$508,446 and \$39,343 has been recognized for vesting of options for the three months ended June 30, 2011 and 2010, respectively. Compensation expense of \$937,474 and \$96,893 has been recognized for vesting of options for the six months ended June 30, 2011 and 2010, respectively. The intrinsic value of the outstanding warrants at June 30, 2011 was \$11,209,866.

## 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.

On February 8, 2011, the Company's Board of Directors extended the management agreement between the Company and Materials Advisors for an additional year. The extension continues Material Advisor's services through December 31, 2012. The extension included the option to purchase 2,904,653 shares of the Company's common stock at an exercise price of \$0.83. The vesting of such options will begin January 1, 2012 and will vest equally over the twelve-month period ending December 1, 2012.

#### NOTE 10 – RELATED PARTIES

The Company is a related party to IBS Capital ("IBS"), an entity whose principal, David Taft, is a Company director. During the six months ended June 30, 2011, IBS purchased 3,900,000 shares of the Company's common stock for prices between \$1.25 to \$1.52 per share, for a total of \$4,135,000. In addition, IBS received \$20,000 cash for director fees associated with Mr. Taft's participation on the Company's board of directors. During the year ended December 31, 2010, the Company received \$1,500,000 from IBS in exchange for convertible debt. During the six months ended June 30, 2011, the Company issued 551,575 shares of its common stock to IBS in conjunction with the conversion of convertible debt issued in May 2010, along with related accrued interest. In November 2010, the Company issued 349,287 shares of the Company's common stock to IBS as part of a forbearance agreement related to the class action lawsuit as described below.

The Company is a related party to Material Advisors ("MA"), an entity with which the Company has a management agreement for executive guidance. The agreement has a term beginning on December 30, 2008 and ending on December 30, 2012 and calls for monthly management fees of \$83,333 to be paid for services. In addition to management fees, MA was granted stock options equivalent to 6,583,278 shares of common stock. Such options vest equally over the life of the management agreement and may be exercised at a strike price of \$0.70 per share. Also during the year ended December 31, 2009, the Company received \$40,000 from MA in exchange for convertible debt. All debt and accrued interest has been converted to 107,347 shares of the Company's common stock. On February 8, 2011, the Company's Board of Directors extended the management agreement between the Company and Materials Advisors for an additional year. The extension continues Material Advisor's services through December 31, 2012. The extension included the option to purchase 2,904,653 shares of the Company's common stock at an exercise price of \$0.83. The vesting of such options will begin January 1, 2012 and will vest equally over the twelve-month period ending December 1, 2012.

## NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

### OVERVIEW

Applied Minerals, Inc. ("the Company") was originally 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. During 1980 the Company became inactive as a result of a decline in silver prices. In September 1997, the Company became active again through the establishment of a contract mining business, which was the Company's sole source of revenue until it was discontinued in December 2008 due to adverse economic changes in the mining industry. In 2001 we leased and then, in 2005, acquired the Dragon Mine, a halloysite clay property located in the Tintic District of Utah, for the purpose of marketing the unique chemical and morphological characteristics of the clay to a number of advanced application markets.

### Property Exploration

The Dragon Mine, to our knowledge, is the only source of halloysite clay in the Western Hemisphere large enough, and of high enough purity, to supply commercial-sized application demand. The property is located in the Tintic District of Utah, covering 230 acres of fully owned land with mining permits for extraction of minerals. Formation is attributed to the alteration of fine clay sediments that accumulated on what was then a shallow sea floor over 600 million years ago. From 1949 through 1976, Filtrol Corporation operated the Dragon Mine on a contracted basis for the property's owner at the time, a subsidiary of Anaconda Mining Company. According to certain mining-related records, Filtrol mined approximately 1.35 million tons of clay from the Dragon Mine for use as an input of a petroleum-cracking catalyst product. The mine was idle from 1977 until it was leased by the Company in 2001. The property was ultimately purchased by the Company in 2005. The current management of the Company hired geologist Dr. Ian Wilson who has supervised our extensive drilling program and continues to explore underground areas of the Dragon property including, but not limited to, two mines developed by prior operators as well as one area that had previously remained unexplored. As of the date of this report, an above-ground area covering approximately 11.5 of the Dragon Mine's 230 acres have been explored. The extraction of material from certain targeted areas of this resource is in progress. The Company applied for and was granted a large mining permit in early 2011 for which it will be required to post a reclamation surety bond. The Company expects to post the required surety bond in May 2011.

The Dragon Mine property also contains five waste piles comprised of material, which can be processed to create a range of halloysite products of different grades of purity. The piles are the result of prior mining operations that took place between 1949 and 1976. The clay mined during that period was used in a petroleum-cracking catalyst application. For that application the clay mined had to contain no more than 2% of an iron oxide impurity. Any clay,

which exceeded such limit, was discarded into the piles. To date, Applied Minerals has characterized the chemistry and mineralogy of the surface piles and has developed a processing system to convert them into purified halloysite products. The Company has identified a number of application areas to which it is marketing its waste pile material.

In addition to the presence of halloysite, the Dragon Mine also possesses quantities of other clays, such as, kaolinite, illite, smectite as well as iron oxide ores in the form of hematite, goethite and ferrihydrite, and manganese, some of which we are in the process of commercializing. The Dragon Mine is present at the contact between the Silver City quartz monzonite stock and limestone and dolomite of the Paleozoic formation. Gold and silver is found in veinlets in pervasively altered rocks of the Silver City stock immediately south of the Dragon mine and were one of the first discoveries made in the Tintic district in 1869. The Dragon Mine was mined as a copper-gold deposit not long after these initial findings. The mine's fissure fault system forms the southern extremity of the Iron Blossom ore run. Within five kilometers of the Dragon Mine, exploration is being carried out by at least one major mining company to determine the possibility of the existence of a large copper-gold porphyry. Testing of surface rock samples in the vicinity of the Dragon Mine carried out in the past show anomalous copper values with gold values exceeding one ounce per ton and silver values of approximately five ounces per ton. Records indicate that, during the 1870's, mining activity at the Dragon Mine had been focused on the iron ore presence at the mine. According to certain records kept by the former U.S. Bureau of Mines, the 305,000 tons of iron ore mined during the 1870's produced 18,000 ounces of gold and 928,000 ounces of silver.

The Company has spent significant resources on the exploration of its Dragon Mine property. The results of the extensive drilling program supervised by the Company's consulting geologist has identified what is believed to be a sufficient amount of clay material, both underground and on the surface of the property, to support a commercial operation. The clay mineral identified at the Dragon Mine has been classified by level of purity. The Company will not be able to refer to the mineral found in its Dragon Mine property as a "reserve" until it can demonstrate the deposit is economically viable. As the Company continues to sell its halloysite clay products into existing and developing markets, it will revisit the possibility of classifying its deposit as a reserve.

#### Commercial Applications of Halloysite

Halloysite is an aluminosilicate clay exhibiting a rare, naturally occurring hollow tubular structure. Halloysite tubes have a length in the range of 0.5 - 3.0 microns, an exterior diameter in the range of 50 - 70 nanometers and an internal diameter (lumen) in the range of 15 - 30 nanometers. The clay is non-toxic and natural, demonstrating high biocompatibility without posing any risk to the environment. It is chemically identical to commonly used kaolin clay ( $\text{Al}_2\text{Si}_2\text{O}_5(\text{OH})_4 \times n\text{H}_2\text{O}$ ) with one layer of water molecules existing between layers of alumina and silica. Formation of halloysite occurs when kaolin sheets roll into tubes due to the strain caused by a lattice mismatch between the adjacent silicon dioxide and aluminum oxide layers. This is a process that occurs over millions of years under extremely rare geological conditions.

The results of research carried out by the Company, academic institutions, and other third parties have determined that the unique morphological and chemical characteristics of the Dragon Mine's halloysite resource add functionality to applications such as, but not limited to, the controlled release of biological and chemical agents, polymer-related additives, fillers and fire retardants, paints and coatings, agricultural products, sorbents for environmental remediation, oil field drilling minerals, catalysts, filtration technologies, hydrogen storage for fuel cells and cosmetics.

To our knowledge, the only other large-scale, commercial source of halloysite clay is located in New Zealand. The New Zealand property, which is owned by Imerys, (Euronext: NK), has been historically focused on supplying its halloysite clay to the porcelain, fine china and other commodity-like markets. Our primary focus, however, is centered on marketing the Dragon Mine's halloysite clay to certain advanced application markets to which the material's unique morphological and chemical characteristics provides enhanced functionality, contributing to the development of a number of high-performance products within a range of industries. At the time of this report, we have sold our Dragon Mine clay to two customers who plan to utilize it in plastic applications. Additionally, we are at different stages of the halloysite commercialization process with at least one hundred potential customers. The Company currently markets its line of halloysite-based products under the Dragonite™ name.

#### Critical Accounting Policies

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

##### Use of Estimates

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

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force ("EITF")), the American Institute of Certified Public Accountants ("AICPA"), and the SEC did not or are not believed by management to have a material impact on the Company's present or future financial statements.

##### Impairment of Assets

Long-lived assets are 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 June 30, 2011 and 2010, 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.

#### 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 9 to the financial statements.

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.

## RESULTS OF OPERATIONS

### Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Revenue for the three months ended June 30, 2011 was approximately \$18,700, compared to \$0 generated during the same period in 2010. The increase was due to the sale of Dragonite™ to a customer for use as a reinforcing additive in plastic applications.

Gross profit for the three months ended June 30, 2011 was \$6,809 compared to \$0 in revenue generated during the same period in 2010. The increase was due to the recognition of revenue for the period in 2011.

Total operating expenses for the three months ending June 30, 2011 were approximately \$1,745,500 compared to approximately \$1,090,700 of expenses incurred during the same period in 2010, an increase of \$654,800 or 60.0%. The increase was due primarily to a \$174,800, or 37.6%, increase in exploration expense and a \$482,300, or 77.4%, increase in general and administrative expense.

Exploration costs incurred during the three months ended June 30, 2011 were approximately \$640,200 compared to approximately \$465,400 of costs incurred during the same period in 2010, an increase of approximately \$174,800, or 37.4%. The majority of our exploration expenses during the quarter were related to the continued exploration activities at our Dragon Mine property and the mineralogical analysis of the material mined from the property. The increase in exploration costs was related, primarily, to management's decision to expand its drilling and testing program to additional areas of the Dragon Mine property, the testing of which has indicated the presence of saleable clay mineral and an iron ore deposit. The primary drivers of the increase in exploration costs were a \$98,600, or 73.3%, increase in wage and wage-related expense due to an increase in the general activity of the Company's workforce, the incurrence of \$28,700 in equipment repair and maintenance expense, the incurrence of \$17,500 in building and infrastructure maintenance expense, the incurrence of \$16,000 in ground support expenses, a \$15,900, or 42.5%, increase in depreciation expense related to an increase in equipment purchases, a \$14,400, or 162.7%, increase in materials and supplies expense, a \$10,200, or 49.6%, increase in utilities expense, and an \$8,800, or 113.6%, increase in insurance expense, partially offset by an \$18,200, or 72.1%, decline in equipment rental and lease expense, a \$16,900, or 95.4%, decline in expendable drilling materials, and a \$14,500, or 38.7%, decline in contract labor expense due to an increase in the hiring of permanent workers.

General and administrative expenses incurred during the three months ended June 30, 2011 totaled approximately \$1,105,400 compared to approximately \$623,100 of expense incurred during the same period in 2010, an increase of approximately \$482,300 or 77.4%. The increase was driven primarily by the incurrence of approximately \$469,000 of expense related to the issuance of warrants and options as compensation to Material Advisors, LLC, certain directors and employees, and consultants, and the incurrence of \$42,100 in wage expense due to the addition of a Chief Technology Officer, partially offset by a \$14,900, or 28.2%, decline in shareholder-related expense and a \$13,900, or 3.5%, decline in expenses related to professional services. The decline in expenses related to professional services was driven by a \$42,700, or 36.7%, decline in legal service-related expense due to a continued decline in the need for services of outside counsel, a \$4,100, or 12.8%, decline in accounting and audit-related expense, partially offset by a \$32,800, or 13.1%, increase in consulting expense due to an increase in the utilization of consultants for product development. General and administrative expense includes approximately \$250,000, which was paid to Material Advisors, LLC as part of the annual fee it is paid per the terms of a management agreement it has with the Company. Of the amount paid to Material Advisors, LLC, approximately \$131,300 was expended on the salaries of its partners and \$118,700 was expended on expenses related to the management of the Company.

Net loss from exploration stage before discontinued operations for the three-month period ending June 30, 2011 was approximately \$1,969,300 compared to a loss of approximately \$1,164,100 incurred during the same period in 2010, an increase of approximately \$805,200 or 69.2%. The increase in the loss from exploration stage before discontinued operations was due primarily to a \$174,800 increase in exploration expense (as previously described), a \$482,300 increase in general and administrative expense (as previously described), a \$78,000 increase in the loss on the revaluation of stock awards, a \$60,800 increase in interest expense due to a higher average debt balance carried during the quarter, and a \$9,000 decline in refund of insurance premium.

Net loss from discontinued operations for the three months ended June 30, 2011 was approximately \$4,900 compared to a loss of \$3,700 for the same period in 2010, an increase in net loss of approximately \$1,200 or 32.4%. The increase in net loss from discontinued operations was due primarily to a \$4,900 impairment charge of certain discontinued assets recognized during the quarter, partially offset by the absence of \$1,900 in property tax expenses and \$1,800 in legal expense, both of which were incurred in the June 2010 quarter.

#### Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Revenue for the six months ended June 30, 2011 was approximately \$63,200, compared to \$0 of revenue generated during the same period in 2010. The increase was due to the sale of Dragonite™ to two customers for use as a reinforcing additive in plastic applications.

Gross profit for the six months ended June 30, 2011 was approximately \$30,200 compared to \$0 of gross profit generated during the same period in 2010. The increase was due to the recognition of revenue for the period in 2011.

Exploration costs incurred during the six months ended June 30, 2011 totaled approximately \$1,311,000 compared to \$994,600 of expense incurred during the comparable period in 2010, an increase of approximately \$316,400 or 31.8%. The majority of our exploration expenses during the quarter were related to the continued exploration activities at our Dragon Mine property and the mineralogical analysis of the material mined from the property. The increase in exploration costs was driven, primarily, by management's decision to expand its drilling and testing program to additional areas of the Dragon Mine property, the results of which have indicated the presence of saleable clay mineral and an iron ore deposit. The primary drivers of the increase in exploration costs were a \$201,000, or 79.2%, increase in wage expense related to an increase in the general activity of the Company's miners, a \$49,200, or 71.0%, increase in depreciation expense due to the purchase of additional equipment, a \$36,600, or 219.7%, increase in equipment repair and maintenance expense, a \$35,700, or 108.1%, increase in utility expense, the incurrence of \$34,200 of explosive expense, the incurrence of \$28,900 of building maintenance expense, the incurrence of \$24,400 of ground support expense, a \$23,500, or 254.7%, increase in materials and supplies expenditures, and the incurrence of \$19,100 of electrical expense, all partially offset by a \$79,800, or 27.6%, decrease in consulting expense related to a reduction in certain surveying work related to the Dragon Mine, and a \$48,700, or 86.6%, decrease in shipping expenses.

General and administrative expense incurred during the six months ended June 30, 2011 totaled approximately \$2,013,000 compared to approximately \$1,273,200 of general and administrative expense incurred during the comparable period in 2010, an increase of approximately \$739,800 or 58.1%. The increase was driven primarily by an \$840,800, or 767.1%, increase in the expensing of options issued to Material Advisors, LLC, certain directors and employees, and consultants, a \$57,500, or 60.4%, increase in wage expense due to the addition of a Chief Technology Officer, all partially offset by a \$105,800, or 13.2%, decline in professional services-related expense (driven primarily by a \$106,400 decline in legal service-related expense due to a reduction in the need of outside legal counsel), a \$32,400, or 38.1%, decrease in shareholder expense, and a \$20,000 decrease in director expense due to the resignation of Morris Weiss in 2010. General and administrative expense includes approximately \$500,000, which was paid to Material Advisors, LLC as part of the annual fee it is paid per the terms of a management agreement it has with the Company. Of the amount paid to Material Advisors, LLC, approximately \$262,500 was expended on the salaries of certain of its partners and \$237,500 was expended on expenses related to the management of the Company, which includes the salary of the Company's Chief Financial Officer.

Net loss from exploration stage before discontinued operations for the six months ended June 30, 2011 was approximately \$3,664,400 compared to a loss of \$2,248,400 incurred during the comparable period in 2010, an increase of approximately \$1,416,000 or 63.0%. The increase in net loss of exploration stage before discontinued operations was due primarily to an approximately \$316,400 increase in exploration expense (as previously described), an approximately \$739,800 increase in general and administrative expense (as previously described), the absence of \$145,000 related to a stock award forfeiture, the realization of a \$28,500 net gain on the settlement of a lawsuit, a \$6,400 insurance premium refund, and \$3,800 of clay sample sales, all of which occurred in the June 2010 period, a \$133,400 increase in interest expense, a \$62,000, or 172.2%, increase in the loss recognized on the revaluation of a stock award, the incurrence of \$7,500 of other expense, and a \$7,000 increase in the amortization of a convertible debt discount, partially offset by \$30,200 of gross profit from the sale of halloysite clay, the elimination of a \$2,000 loss on the impairment of equipment and a \$1,000 gain on the disposition of equipment.

Net loss from discontinued operations for the six months ended June 30, 2011 was approximately \$5,800 compared to income of approximately \$234,700 realized during the same period in 2010, a decline in net income of approximately \$240,500. The decline in net income from discontinued operations was due primarily to the collection, during the June 2010 period, of \$245,000 of a receivable previously written off, partially offset by the incurrence of a write-off of \$4,800 of certain assets associated with discontinued operations during the June 2011 period.

## LIQUIDITY AND CAPITAL RESOURCES

From December 2008 through June 2011, our activities have been financed primarily through the sale of convertible debt and equity securities. During the six months ended June 30, 2011, we raised \$4,385,000 of cash through the sale of common stock. We may need to raise additional capital during the remainder of 2011, through the sale of equity, debt or the disposal of certain non-core assets, to successfully fund our operations. If we cannot raise sufficient capital through the sale of equity securities, the assumption of debt or the monetization of certain assets, our ability to fund our operations may be severely impaired and we may be unable to operate our business.

The Company has incurred material recurring losses from operations. At June 30, 2011, the Company had a total accumulated deficit of approximately \$35,213,600. For the six months ended June 30, 2011 and 2010, the Company sustained net losses from exploration stage before discontinued operations of approximately \$3,664,400 and \$2,248,400, 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 during the six months ended June 30, 2011 was approximately \$2,145,800 compared to \$1,631,400 of cash used during the same period in 2010. The \$514,400 increase in cash used during the period was due primarily to an increase in the net loss realized of approximately \$1,656,500, a \$154,600 increase in cash used for the payment of accounts payable and the satisfaction of liabilities of discontinued operations, and the elimination of \$2,300 related to the loss on the impairment of assets, partially offset by a \$840,600 increase in the fair value of warrants and options issued to Material Advisors, LLC, certain directors and consultants, the elimination of a \$145,000 gain related to a stock award forfeiture, a \$104,300 increase in payment of non-cash PIK Note interest, a \$74,300 increase in stock compensation granted to certain directors and consultants, a \$62,000 increase in the loss related to the revaluation of stock awards, a \$48,000 increase in depreciation expense, a \$16,700 increase in cash resulting from the change in operating assets and liabilities, and a \$9,200 increase in the amortization of deferred financing costs.

Cash used by investing activities during the six months ended June 30, 2011 was approximately \$153,300 as compared to a generation of \$45,000 of cash during the same period in 2010. The \$198,300 increase in cash used during the period was driven by a \$99,300 increase in the purchase of equipment related to the continued development of the Dragon Mine property and a \$99,000 decline in proceeds generated from the sale of assets.

Cash generated through financing activities during the six months ended June 30, 2011 was approximately \$4,166,600 compared to \$1,232,700 of cash generated during the same period in 2010. The \$2,933,900 increase in cash generated during the period was driven primarily through the sale of \$4,385,000 of common stock to certain qualified investors, offset by the absence of the sale of \$1,500,000 of PIK-Election Convertible Notes, which took place during the comparable period in 2010.

At June 30, 2011, the Company had, as part of its liabilities, approximately \$3,250,800 face value of 10% PIK-Election Convertible Notes due 2018.

#### 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

3.

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 June 30, 2011, management identified a material weakness in internal control over financial reporting, which management considers an integral component of disclosure controls and procedures. We have identified the material weakness as the untimely recording of certain invoices sent to the Company's New York office, which, in turn, have had to be delivered to its Idaho office, which is responsible for processing all invoices. We are in the midst of consolidating our back-office operations into our New York location, which, we believe, will eliminate the possibility of the untimely recording of invoices. As a result of the material weakness 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 June 30, 2011 and December 31, 2010, and results of its operations and cash flows for the period ended June 30, 2011 and 2010, 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 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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. Currently, we have no lawsuits, claims, proceedings and investigations pending involving us.

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

During the second quarter of 2011, we sold stock not registered under the Securities Act as listed below. Management at the time deemed such sales to be exempt under Section 4(2) of the Securities Act and indicated that all sales were made to accredited investors.

During the six months ended June 30, 2011, the Company issued 4,212,500 shares of its common stock in exchange for \$4,385,000.

During the six months ended June 30, 2011, the Company issued 78,418 shares of its common stock to consultants for services valued at \$71,433.

During the six months ended June 30, 2011, the Company issued 12,500 shares of its common stock as payment of a director's fee valued at \$20,000.

During the six months ended June 30, 2011, the Company issued 124,481 warrants to purchase common stock to a consultant for services valued at \$30,000 using the Black-Scholes model.

During the six months ended June 30, 2011, the Company issued 461,340 warrants to purchase common stock to a consultant for services valued at \$250,000 using the Black-Scholes model.

During the six months ended June 30, 2011, the Company issued 213,402 warrants to purchase common stock to an employee for compensation valued at \$50,000 using the Black-Scholes model.

During the six months ended June 30, 2011, the Company issued 200,481 options to purchase common stock, valued at \$50,000 using the Black-Scholes model, to a director for assuming the chairmanship of an executive committee.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

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: August 9, 2011

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

Dated: August 9, 2011

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

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