

Applied Minerals, Inc.  
Form 10-Q  
May 16, 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 March 31, 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 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, \$0.001 par value per share, outstanding as of May 13, 2011 was 72,759,095.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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

FIRST 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

|  | March 31,<br>2011<br>(Unaudited) | December<br>31,<br>2010 |
|--|----------------------------------|-------------------------|
| Current Assets   |                                  |                         |
| Cash and cash equivalents                                  | \$2,798,460                      | \$1,642,340             |
| Accounts receivable  | 44,200                           | 61,275                  |
| Mining supplies inventory                                  | 3,178                            | 3,503                   |
| Deposits and prepaids                                      | 194,585                          | 178,738                 |
| Total Current Assets                                       | 3,040,423                        | 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   | 661,523                          | 588,523                 |
| Milling equipment  | 333,483                          | 333,483                 |
| Laboratory equipment                                       | 67,728                           | 67,728                  |
| Office furniture and equipment                             | 29,398                           | 27,419                  |
| Vehicles   | 75,013                           | 75,013                  |
| Less: Accumulated Depreciation                             | (547,603 )                       | (481,364 )              |
| Total Property and Equipment                               | 1,741,026                        | 1,732,286               |
| Other Assets   |                                  |                         |
| Assets from discontinued operations<br>being held for sale | 450,042                          | 450,042                 |
| Total Other Assets   | 450,042                          | 450,042                 |
| <b>TOTAL ASSETS</b>  | <b>\$5,231,491</b>               | <b>\$4,068,184</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

|  | March 31,<br>2011<br>(Unaudited) | December<br>31,<br>2010 |
|--|----------------------------------|-------------------------|
| <b>Current Liabilities</b>   |                                  |                         |
| Accounts payable and accrued liabilities   | \$ 513,599                       | \$ 266,139              |
| Stock awards payable   | 81,000                           | 80,000                  |
| Current portion of notes payable   | 179,911                          | 206,209                 |
| Current portion of leases payable  | 132,200                          | 167,956                 |
| <b>Total Current Liabilities</b>   | <b>906,710</b>                   | <b>720,304</b>          |
| <b>Long-Term Liabilities</b>   |                                  |                         |
| Long-term portion of notes payable   | 324,996                          | 361,295                 |
| Long-term portion of leases payable  | - 0 -                            | 10,094                  |
| <b>Total Long-Term Liabilities</b>   | <b>324,996</b>                   | <b>371,389</b>          |
| <b>Other Liabilities</b>   |                                  |                         |
| Convertible debt (PIK Notes),  | 4,683,624                        | 4,683,624               |
| Amortizable discount (PIK Notes)   | (142,347 )                       | (146,939 )              |
| Liabilities from discontinued operations   | 2,502                            | 1,152                   |
| <b>Total Other Liabilities</b>   | <b>4,543,779</b>                 | <b>4,537,837</b>        |
| <b>TOTAL LIABILITIES</b>   | <b>5,775,485</b>                 | <b>5,629,530</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<br>shares authorized, noncumulative, nonvoting,<br>nonconvertible, none issued or outstanding   | - 0 -                            | - 0 -                   |
| Common stock, \$0.001 par value, 120,000,000<br>shares authorized, 72,560,373 and 69,704,393<br>shares issued and outstanding at March 31,<br>2011 and December 31, 2010, respectively | 72,560                           | 69,704                  |
| Additional paid-in capital   | 32,570,551                       | 29,860,040              |
| Accumulated deficit prior to the exploration stage   | (20,009,496)                     | (20,009,496)            |
| Accumulated deficit during the exploration stage   | (13,229,939)                     | (11,533,915)            |
| <b>Total Applied Minerals, Inc.<br/>stockholders' equity (deficit)</b>   | <b>(596,324 )</b>                | <b>(1,613,667 )</b>     |
| Non-controlling interest   | 52,330                           | 52,321                  |
| <b>Total Stockholders' Equity (Deficit)</b>  | <b>(543,994 )</b>                | <b>(1,561,346 )</b>     |
| <b>TOTAL LIABILITIES AND<br/>STOCKHOLDERS' EQUITY (DEFICIT)</b>  | <b>\$ 5,231,491</b>              | <b>\$ 4,068,184</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<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>2011 |
|---|---|-------------|--|
|   | 2011                                    | 2010        |  |
| REVENUES  | \$44,468                                | \$- 0 -     | \$44,468   |
| COST OF SALES   | (21,075 )                               | - 0 -       | (21,075 )  |
| Gross Profit  | 23,393                                  | - 0 -       | 23,393   |
| <b>OPERATING (INCOME) EXPENSES:</b>                               |   |             |  |
| Exploration costs   | 670,854                                 | 529,213     | 4,277,809  |
| General and administrative  | 907,651                                 | 650,181     | 8,081,912  |
| (Gain) loss from disposition of land and equipment                | (1,000 )                                | - 0 -       | (4,523 )   |
| Loss on impairment of equipment                                   | - 0 -                                   | - 0 -       | 55,122   |
| Total Operating Expenses  | 1,577,505                               | 1,179,394   | 12,410,320   |
| Net Operating Loss  | (1,554,112)                             | (1,179,394) | (12,386,927)   |
| <b>OTHER INCOME (EXPENSE):</b>                                    |   |             |  |
| Interest income   | 222                                     | 231         | 1,627  |
| Interest expense  | (132,146 )                              | (59,538 )   | (690,747 )   |
| Sale of clay samples  | - 0 -                                   | - 0 -       | 10,943   |
| Refund of insurance premium                                       | 2,531                                   | - 0 -       | 22,687   |
| Gain on stock award forfeiture                                    | - 0 -                                   | 145,000     | 145,000  |
| Gain (loss) on revaluation of stock awards                        | (1,000 )                                | (17,000 )   | (173,500 )   |
| Net proceeds (expenses) from legal settlement                     | - 0 -                                   | 28,548      | (173,325 )   |
| Amortization of convertible debt discount                         | (4,592 )                                | (2,194 )    | (372,994 )   |
| Other income (expense)  | (6,041 )                                | - 0 -       | (4,427 )   |
| Total Other Income (Expense)                                      | (141,026 )                              | 95,047      | (901,234 )   |
| Loss from exploration stage, before income taxes                  | (1,695,138)                             | (1,084,347) | (13,288,161)   |
| Provision (benefit) for income taxes                              | - 0 -                                   | - 0 -       | - 0 -  |
| Net Loss from Exploration Stage<br>Before Discontinued Operations | (1,695,138)                             | (1,084,347) | (13,288,161)   |
| Net income (loss) from discontinued operations                    | (910 )                                  | 238,382     | 58,244   |



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|  |               |              |                |
|--|---------------|--------------|----------------|
| Net loss from exploration stage after discontinued operations  | (1,696,048)   | (845,965 )   | (13,229,917)   |
| Net income (loss) attributable to the non-controlling interest | 24            | 40           | (22 )          |
| Net Loss Attributable to Applied Minerals, Inc.                | \$(1,696,024) | \$(845,925 ) | \$(13,229,939) |

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  
 March 31,  
 2011                      2010

Earnings Per Share Information (Basic and Diluted):

|  |            |            |
|--|------------|------------|
| Net loss per share before discontinued operations                                  |            |            |
| attributable to Applied Minerals, Inc. common shareholders                         | \$(0.03    | ) \$(0.01  |
| Discontinued operations attributable to Applied Minerals, Inc. common shareholders | - 0 -      | - 0 -      |
| Net Loss Per Share Attributable to Applied Minerals, Inc. common shareholders      | \$(0.03    | ) \$(0.01  |
| Weighted Average Shares Outstanding (basic and diluted)                            | 67,497,094 | 68,826,593 |

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)

|   | 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>2011 |
|---|--|--------------|--|
|   | 2011                                       | 2010         |  |
| Cash flows from operating activities:                                     |  |              |  |
| Net loss  | \$(1,696,024)                              | \$(845,925 ) | \$(12,878,041)   |
| Adjustments to reconcile net loss to<br>net cash used in operations:      |  |              |  |
| Depreciation  | 66,239                                     | 33,594       | 352,831  |
| Amortization of discount – PIK Notes                                      | 4,592                                      | 2,194        | 375,187  |
| Issuance of PIK Notes in payment of interest                              | - 0 -                                      | 3,114        | 520,986  |
| Stock issued for director and consulting services                         | 32,388                                     | 10,000       | 114,717  |
| Stock issued for cashless warrant   | 1,950                                      | - 0 -        | 1,950  |
| Fair value of warrants and options<br>issued to consultants and directors | 429,029                                    | 57,550       | 813,034  |
| Loss on revaluation of stock awards                                       | 1,000                                      | 17,000       | 173,500  |
| 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 -                                      | - 0 -        | 62,019   |
| Change in operating assets and liabilities:                               |  |              |  |
| (Increase) Decrease in:   |  |              |  |
| Accounts receivable   | 17,075                                     | - 0 -        | (44,156 )  |
| Mining supplies inventory   | 325  |              | (3,178 )   |
| Deposits and prepaids   | (15,847 )                                  | 27,257       | 87,721   |
| Increase (Decrease) in:   |  |              |  |
| Accounts payable and accrued expenses                                     | 247,460                                    | 246,639      | 418,641  |
| Net cash used by discontinued operations                                  | 1,359                                      | 1,906        | 606,050  |
| Net cash used by operating activities                                     | (911,454 )                                 | (591,671 )   | (9,548,262 )   |
| Cash flows from investing activities:                                     |  |              |  |
| Purchases of land improvements  | - 0 -                                      | - 0 -        | (72,923 )  |
| Purchases of equipment and vehicles                                       | (74,979 )                                  | (52,514 )    | (257,663 )   |
| Proceeds from sale of assets  | 1,000                                      | 100,000      | 151,000  |
| Net cash provided by discontinued operations                              | - 0 -                                      | - 0 -        | 434,670  |
| Net cash provided by investing activities                                 | (73,979 )                                  | 47,486       | 255,084  |
| Cash flows from financing activities:                                     |  |              |  |

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|  |             |            |             |
|--|-------------|------------|-------------|
| Payments on notes payable                        | (62,597 )   | (32,305 )  | (375,218 )  |
| Payments on leases payable                       | (45,850 )   | (3,637 )   | (298,843 )  |
| Proceeds from insurance settlement               | - 0 -       | - 0 -      | 115,000     |
| Proceeds from notes payable                      | - 0 -       | - 0 -      | 124,129     |
| Proceeds from PIK notes payable                  | - 0 -       | - 0 -      | 9,600,000   |
| Proceeds from sale of common stock               | 2,250,000   | - 0 -      | 2,250,000   |
| Payments for legal settlement                    | - 0 -       | (170,000 ) | (170,000 )  |
| Net cash used by discontinued operations         | - 0 -       | (2,310 )   | (56,431 )   |
| Net cash provided (used) by financing activities | 2,141,553   | (208,252 ) | 11,188,637  |
| Net increase (decrease) in cash                  | 1,156,120   | (752,437 ) | 1,895,459   |
| Cash and cash equivalents at beginning of period | 1,642,340   | 1,584,866  | 903,001     |
| Cash and cash equivalents at end of period       | \$2,798,460 | \$832,429  | \$2,798,460 |

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 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>2011 |
|--|--|------------|--|
|  | 2011                                       | 2010       |  |
| <b>Cash Paid For:</b>  |  |            |  |
| Interest   | \$ 15,054                                  | \$ 8,844   | \$ 43,534  |
| 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                         | \$ - 0 -                                   | \$ 210,614 | \$ 6,553,421   |
| Equipment financed on lease  | \$ - 0 -                                   | \$ - 0 -   | \$ 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  
March 31, 2011 and 2010

NOTE 1 – BASIS OF PRESENTATION AND GOING CONCERN

The interim financial statements as of March 31, 2011, and for the periods ended March 31, 2011 and 2010, and cumulative from inception of the exploration stage through March 31, 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 March 31, 2011 and the results of its operations and its cash flows for the periods ended March 31, 2011 and 2010, and cumulative from inception of the exploration stage through March 31, 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 March 31, 2011, the Company had aggregate accumulated deficits prior to and during the exploration stage of \$33,239,435, in addition to limited cash and unprofitable operations. For the period ended March 31, 2011 and 2010, the Company sustained net losses before discontinued operations of \$1,343,240 and \$1,084,299, 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, 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

Applied Minerals, Inc., ("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.

APPLIED MINERALS, INC. AND SUBSIDIARY  
(An Exploration Stage Mining Company)  
Condensed Notes to the Consolidated Financial Statements  
March 31, 2011 and 2010

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Convertible Debt

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 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 March 31, 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.

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 March 31, 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.

APPLIED MINERALS, INC. AND SUBSIDIARY  
 (An Exploration Stage Mining Company)  
 Condensed Notes to the Consolidated Financial Statements  
 March 31, 2011 and 2010

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

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

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

|  | March 31,<br>2011 | December<br>31,<br>2010 |
|--|-------------------|-------------------------|
| Accounts payable and accrued liabilities       | \$2,502           | \$1,152                 |
| Total liabilities from discontinued operations | \$2,502           | \$1,152                 |

During the three months ended March 31, 2011, the Company received payment in settlement of one previously recorded bad debt from discontinued operations. Income (loss) after discontinued operations for the three months ended March 31, 2011 and 2010, and cumulative from inception of the exploration stage through March 31, 2011 was calculated as follows:

|  | For the three months<br>ended<br>March 31, |          |
|--|--|----------|
|  | 2011                                       | 2010     |
| Revenues from discontinued operations      | \$- 0 -                                    | \$- 0 -  |
| Cost of goods sold                         | - 0 -                                      | - 0 -    |
| General and administrative expenses        | (910 )                                     | (7,125 ) |
| Collection of previously recorded bad debt | - 0 -                                      | 245,507  |
| Loss on disposal of assets                 | - 0 -                                      | - 0 -    |
| Loss on impairment of assets               | - 0 -                                      | - 0 -    |
| Income (loss) from discontinued operations | (910 )                                     | 238,382  |

|  |        |             |
|--|--------|-------------|
| Income tax liability                           | - 0 -  | - 0 -       |
| Net income (loss) from discontinued operations | \$(910 | ) \$238,382 |

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 150,000 shares of vested common stock to an Executive Vice President as part of his employment agreement. These shares were not issued prior to the employee's resignation 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 March 31, 2011, the Company realized a loss on the revaluation of the remaining stock award totaling \$1,000. The value of the outstanding stock awards at March 31, 2011 and December 31, 2010 were \$81,000 and \$80,000, respectively. The Company does not intend to ever issue these shares and will expects to treat the liability appropriately.

APPLIED MINERALS, INC. AND SUBSIDIARY

(An Exploration Stage Mining Company)

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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 May and 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 May and October 2010 cannot be converted by the Company for one year from the date of issuance

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.

Amortizable Discount

In connection with the convertible debt issued during 2010, the Company recorded a discount on debt related to the financing costs paid to a third party in the amount of \$150,000 which is being amortized over the term of the debt. The Company amortizes the debt discount, straight-line over the life of the debt. In the event of conversion before note maturity, any remaining amortizable discount is immediately expensed. During the three months ended March 31, 2011, total expense related to amortizable discount was \$4,592. As of March 31, 2011 and December 31, 2010, there was \$142,347 and \$146,939, respectively of amortizable discount remaining on Convertible PIK Notes.

Mandatory Conversion

In February 2010, the Company mandatorily converted the July 2009 convertible debt and unpaid interest. Upon conversion, \$2,194 of amortizable discount was amortized, and 324,193 shares of the Company's common stock were issued for the conversion of the notes. In July 2010, the Company mandatorily converted the October 2009 convertible debt and unpaid interest. Upon conversion, 2,133,307 shares of the Company's common stock were issued for the conversion of the notes. During the three months ended March 31, 2011 and 2010, the Company recorded \$117,093 and \$50,500, respectively, in interest expense associated with the convertible 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 March 31, 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 March 31, 2011 and December 31, 2010, 72,560,373 and 69,704,393 shares were issued and outstanding, respectively.

During the three months ended March 31, 2011, the Company issued a total of 37,910 shares of restricted, common stock to directors and consultants as payment of fees. The value of such was recorded at \$32,388. During the three months ended March 31, 2011, a warrant holder exercised 10,000 warrants on a cashless basis and received 5,570 shares of the Company’s common stock. The warrants were issued to the holder as payment for consulting services. Also during the three months ended March 31, 2011, the Company sold a total of 2,812,500 shares of common stock at \$1.25, collecting a total of \$2,250,000. 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 March 31, 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) income attributable to non-controlling interest | 24       |
| Ending balance, March 31, 2011                             | \$52,345 |

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, 2011       |
|  | Shares      Weighted |
|  | Average              |

|                                  |           | Exercise Price |
|----------------------------------|-----------|----------------|
| Outstanding at December 31, 2010 | 580,187   | \$0.84         |
| Issued                           | 337,883   | \$0.79         |
| Exercised                        | (10,000 ) | \$( 0.35 )     |
| Forfeited                        | - 0 -     | - 0 -          |
| Expired                          | - 0 -     | - 0 -          |
| Outstanding at March 31, 2011    | 908,070   | \$0.83         |
| Exercisable at March 31, 2011    | 908,770   |                |

During the three months ended March 31, 2011, the Company granted 337,883 warrants to purchase the Company's common stock with an average exercise price of \$0.79. Of the 337,883 warrants granted, 337,883 vested during the three months ended March 31, 2011. The intrinsic value of the outstanding warrants at March 31, 2011 was \$0.

A summary of the status of the warrants outstanding at March 31, 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               |                  | 4.00 years                 | \$0.35                          | 90,000               | \$0.35                          |
| \$0.78         | 213,402              |                  | 4.83 years                 | \$0.78                          | 213,402              | \$0.78                          |
| \$0.80         | 264,668              |                  | 4.75 years                 | \$0.80                          | 264,668              | \$0.80                          |
| \$1.00         | 340,000              |                  | 4.50 years                 | \$1.00                          | 340,000              | \$1.00                          |
|                | 908,070              |                  |                            |                                 | 908,070              |                                 |

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

Compensation expense of \$196,454 has been recognized for warrants to non-related parties in the accompanying statements of operations for the period ended March 31, 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 quarter ended March 31, 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 March 31, 2011 is as follows:

|                                  | March 31, 2011 |                                 |
|----------------------------------|----------------|---------------------------------|
|                                  | Shares         | Weighted Average Exercise 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 March 31, 2011    | 10,798,411     | \$0.71                          |

|                               |           |
|-------------------------------|-----------|
| Exercisable at March 31, 2011 | 5,992,577 |
|-------------------------------|-----------|

During the three months ended March 31, 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.

A summary of the status of the options outstanding at March 31, 2011 is presented below:

| Exercise Price | Options Outstanding |   |             | Weighted Average Exercise Price | Options Exercisable |                                 |
|----------------|---------------------|---|-------------|---------------------------------|---------------------|---------------------------------|
|                | Number Outstanding  | Weighted Average Remaining Contractual Life | Contractual |                                 | 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           |   | 8.50 years  | \$0.70                          | 5,712,457           | \$0.70                          |
| \$0.83         | 3,205,134           |   | 5.00 years  | \$0.83                          | 75,120              | \$0.83                          |
| \$0.90         | 100,000             |   | 4.50 years  | \$0.90                          | 100,000             | \$0.90                          |
| \$1.00         | 60,000              |   | 5.25 years  | \$1.00                          | 30,000              | \$1.00                          |
|                | 10,798,411          |   |             |                                 | 5,992,577           |                                 |

At March 31, 2011, the total compensation of \$367,818 for unvested shares is to be recognized over the next 1.75 years on a weighted average basis.

Compensation expense of \$232,574 and \$57,550 has been recognized for vesting of options to employees, directors, related parties, and non-related parties in the accompanying statements of operations for the periods ended March 31, 2011 and 2010, respectively. The intrinsic value of the outstanding warrants at March 31, 2011 was \$1,079,841.



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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.

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 three months ended March 31, 2011, IBS purchased 2,500,000 shares of the Company’s common stock for \$1.25 per share, for a total of \$2,000,000. In addition, IBS received \$10,000 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. In addition, 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 11 – SUBSEQUENT EVENTS

On April 18, 2011, the Company sold a total of 150,000 shares of common stock at \$0.90 per share to one purchaser in a transaction that was exempt from registration under section 4(2) of the Securities Act of 1933. The sale price of \$0.90 per share was based on the closing price of the common stock of the Company on April 15, 2011. The Company did not use a broker and paid no commission as part of the transaction. This sale of common stock of the Company was unsolicited.

On April 28, 2011, the Company engaged Dahlman Rose and Company, LLC (“Dahlman Rose”), a full-service investment banking firm and registered broker-dealer, to advise the Company on financial and corporate development options. As part of the engagement, the Company issued to Dahlman Rose 461,340 warrants to purchase shares of common stock of Applied Minerals, Inc. The warrants have an exercise price of \$1.15 per share, a term of 10 years and vest quarterly over a 12-month period commencing on the date of issuance.

## 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 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 silicone 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 March 31, 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 March 31, 2011 Compared to Three Months Ended March 31, 2010

Revenue for the three months ended March 31, 2011 was \$44,468 versus \$0 for 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 three months ended March 31, 2011 was \$23,393 versus \$0 for the comparable 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 March 31, 2011 were \$1,225,607 compared to \$1,179,394 for the same period ending 2010, an increase of \$46,213, or 3.9%. The increase was due primarily to a \$141,641, or 26.8%, increase exploration expense, partially offset by a \$94,428 or 14.5% decrease, in general and administrative expense.

Exploration costs during the quarter were \$670,854 versus \$529,213, an increase of \$141,641 over the comparable period in 2010. 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 26.8% 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, testing of which has indicated the presence of saleable clay mineral. The primary drivers of the increase in exploration costs were a \$99,200 increase in wage and wage-related expense, a \$26,000 increase in explosive materials expense, a \$25,500 increase in utility expense, a \$72,500 increase in drilling supplies expense, and a \$33,000 increase in depreciation expense, partially offset by a \$59,100 decrease in geological consulting expense and a \$49,000 decrease in shipping expense.

General and administrative expense for the three months ended March 31, 2011 was \$907,651 versus \$650,181 for the comparable period in 2010. The \$257,470 increase was driven primarily by an approximate \$350,000 increase in expense related to the issuance of warrants and options as compensation to certain employees, directors and consultants, a \$15,000 increase in corporate-level wage expense and a \$19,600 increase in stock-based compensation paid to certain consultants related to product development, partially offset by a \$63,800 reduction in legal expenses related an effort on behalf of management to reduce its reliance on outside counsel with respect to certain matters, a \$29,100 decline in accounting and auditing expense related to the absence of the preparation of a filing that had been required during the three months ended March 31, 2010, a \$17,500 decline in shareholder-related expense, and a \$12,000 decline in office-related expense.

Net loss before discontinued operations for the three-month period ending March 31, 2011 was \$1,695,138 compared to \$1,084,347 for the comparable period in 2010, an increase of \$610,791 or 56.3%. The increase in loss in before discontinued operations was due primarily to a \$141,600 increase in exploration expense (previously described), a \$257,500 increase in general and administrative expense, a \$72,600 increase in interest expense, a \$145,000 decline in the gain attributable to the revaluation of certain stock awards, the elimination of \$28,500 net proceeds from a legal settlement and an increase in other expense of 6,000, partially offset by the inclusion of \$23,400 in gross profit and a decline in general and a \$16,000 decline in the loss realized on the revaluation of certain stock awards.

Net loss from discontinued operations for the three months ended March 31, 2011 was \$910 compared to a net income of \$238,382 for the comparable period in 2010. The \$239,292 decline in net income from discontinued operations was due primarily to the collection of \$245,500 of receivables that had been previously written off in the 2010 period.

## LIQUIDITY AND CAPITAL RESOURCES

Through March 31, 2011 our activities have been financed primarily the sale of equity securities and borrowings as needed. Our current asset and debt structure is explained below. During the three months ended March 31, 2011, we raised \$2,250,000 of cash through the sale of common stock. We may need to raise additional capital in 2011, through both the sale of equity and 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 March 31, 2011, the Company had a total accumulated deficit of \$33,239,435. For the three months ended March 31, 2011 and 2010, the Company sustained net losses before discontinued operations of \$1,695,138 and \$1,084,347, 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 \$911,454 during the three months ended March 31, 2011 versus \$591,671 for the comparable period in 2010. The \$319,783 increase in cash used during the period was due primarily to an increase in the net loss realized during the three months ended March 31, 2011 of \$850,100, a \$26,000 increase in accounts receivable and prepaids, and a \$16,000 decline in the add-back associated with a loss on the revaluation of stock awards, partially offset by a \$371,400 increase in an add-back associated with the fair value of warrants and options issued to directors and consultants, a \$32,000 increase in depreciation, a \$22,000 in the add-back related to the issuance of common stock as compensation, and the absence of a reversal of \$145,000 in gains on the disposition of assets.

Cash used by investing activities during the three months ended March 31, 2011 was \$73,979 versus cash of \$47,486 provided during the comparable period in 2010. During the three months ended March 31, 2011, the Company spent \$74,979 on the purchase of equipment and vehicles related to the exploration of the Dragon Mine and generated \$1,000 through the sale of non-core equipment and vehicles. During the comparable period in 2010, \$100,000 was generated through the sale of assets related to our discontinued contract mining business and \$52,514 was spent on the purchase of equipment and vehicles.

Cash generated through financing activities was \$2,141,553 during the three months ended March 31, 2011 versus cash of \$208,252 used by financing activities during the comparable period in 2010. The \$2,349,805 increase in cash generated during the period was driven primarily through the sale of \$2,250,000 worth of common stock to certain qualified investors.

At March 31, 2011, the Company had, as part of its long-term liabilities, \$4,683,624 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

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, 2011, management identified material weaknesses in internal control over financial reporting, which management considers an integral component of disclosure controls and procedures. The primary material weakness identified had to do with the timely 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 March 31, 2011 and December 31, 2010, and results of its operations and cash flows for the period ended March 31, 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 three months ended March 31, 2011, the Company issued 2,812,500 shares of its common stock in exchange for \$2,250,000.

During the three months ended March 31, 2011, the Company issued 37,910 shares of its common stock for services valued at \$29,433.

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: May 16, 2011

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

Dated: May 16, 2011

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

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