

Applied Minerals, Inc.
Form 10-Q
May 09, 2013

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, 2013

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 10012
(Address of principal executive offices) (Zip Code)

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

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

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

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YES NO

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

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

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

YES NO

The number of shares of the registrant’s common stock, \$0.001 par value per share, outstanding as of April 30, 2013 was 94,410,158.

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

FIRST QUARTER 2013 REPORT ON FORM 10-Q

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

| | March 31, 2013 (Unaudited) | December 31, 2012 |
|---|----------------------------------|-------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$5,729,502 | \$3,356,103 |
| Accounts receivable, net of allowance of \$25,106 at March 31, 2013 and December 31, 2012, respectively | 24,234 | 7,778 |
| Deposits and prepaid expenses | 373,014 | 379,941 |
| Total Current Assets | 6,126,750 | 3,743,822 |
| Property and Equipment | | |
| Land and mining property | 1,109,938 | 1,109,938 |
| Property and equipment, net | 3,219,930 | 2,895,742 |
| Total Property and Equipment, Net | 4,329,868 | 4,005,680 |
| Other Assets | | |
| Deposit | 68,958 | 68,958 |
| Total Other Assets | 68,958 | 68,958 |
| TOTAL ASSETS | \$10,525,576 | \$7,818,460 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$678,997 | \$1,155,327 |
| Stock awards payable | 140,000 | 154,000 |
| Current portion of notes payable | 355,399 | 413,470 |
| Total Current Liabilities | 1,174,396 | 1,722,797 |
| Long-Term Liabilities | | |
| Long-term portion of notes payable | 130,617 | 184,426 |
| Warrant derivative | 1,450,000 | 1,945,000 |
| Total Long-Term Liabilities | 1,580,617 | 2,129,426 |
| Total Liabilities | 2,755,013 | 3,852,223 |
| Commitments and Contingencies | - 0 - | - 0 - |
| Stockholders' Equity | | |
| Preferred stock, \$0.001 par value, 10,000,000 shares authorized, none issued or outstanding | - 0 - | - 0 - |
| Common stock, \$0.001 par value, 120,000,000 shares authorized, 94,400,247 and 90,619,444 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively | 94,400 | 90,619 |

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| | | |
|--|---------------------|--------------------|
| Additional paid-in capital | 59,513,500 | 52,634,064 |
| Accumulated deficit prior to the exploration stage | (20,009,496) | (20,009,496) |
| Accumulated deficit during the exploration stage | (31,827,841) | (28,748,950) |
| Total Stockholders' Equity | 7,770,563 | 3,966,237 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$10,525,576 | \$7,818,460 |

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

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

| | For the three months ended March 31, | | For the Period January 1, 2009 (Beginning of Exploration Stage) through March 31, 2013 |
|---|---|----------------|--|
| | 2013 | 2012 | |
| REVENUES | \$25,086 | \$55,402 | \$283,780 |
| OPERATING EXPENSES: | | | |
| Production costs | 15,767 | 42,492 | 199,583 |
| Exploration costs | 1,367,612 | 694,964 | 10,918,335 |
| General and administrative | 2,145,423 | 2,009,341 | 20,105,220 |
| Depreciation expense | 78,798 | 81,076 | 894,986 |
| Loss on impairment and disposition of land and equipment | -0- | - 0 - | 60,512 |
| Total Operating Expenses | 3,607,600 | 2,827,873 | 32,178,636 |
| Operating Loss | (3,582,514) | (2,772,471) | (31,894,856) |
| OTHER INCOME (EXPENSE): | | | |
| Interest expense, net, including amortization of deferred financing cost and debt discount | (4,933) | (3,190) | (1,476,971) |
| Gain on revaluation of warrants | 495,000 | 990,000 | 1,350,000 |
| Gain (loss) on revaluation of stock award | 14,000 | (21,000) | (232,500) |
| Other income (expense) | (444) | (544) | 425,424 |
| Total Other Income | 503,623 | 965,266 | 65,953 |
| Loss from continuing operations | (3,078,891) | (1,807,205) | (31,828,903) |
| Income (loss) from discontinued operations | -0- | (1,835) | 53,382 |
| Net loss | (3,078,891) | (1,809,040) | (31,775,521) |
| Net income attributable to the non-controlling interest | -0- | - 0 - | (52,320) |
| Net Loss Attributable to Applied Minerals | \$(3,078,891) | \$(1,809,040) | \$(31,827,841) |

Loss Per Share (Basic and Diluted):

| | | |
|---|------------|------------|
| Loss per share from continuing operations | \$ (0.03) | \$ (0.02) |
| Loss per share from discontinued operations | -0- | - 0 - |
| Net Loss Per Share (Basic and Diluted) | \$ (0.03) | \$ (0.02) |
| Weighted Average Shares | | |
| Outstanding (Basic and Diluted) | 93,681,139 | 89,136,400 |

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

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APPLIED MINERALS, INC.
 (An Exploration Stage Mining Company)
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 (Unaudited)

| | Common Stock | | | Accumulated Deficit Prior to Exploration Stage | Accumulated Deficit During Exploration Stage | Total Stock- holders' Equity |
|--|--------------|----------|----------------------------------|--|--|---------------------------------------|
| | Shares | Amount | Additional Paid-In Capital | | | |
| Balance, December 31, 2012 | 90,619,444 | \$90,619 | \$52,634,064 | \$(20,009,496) | \$(28,748,950) | \$3,966,237 |
| Shares issued for directors fees and other services | 24,046 | 24 | 38,351 | -0- | -0- | 38,375 |
| Shares issued to third parties for cash | 3,756,757 | 3,757 | 5,556,243 | -0- | -0- | 5,560,000 |
| Stock-based compensation expense for consultants and directors | -0- | -0- | 1,284,842 | -0- | -0- | 1,284,842 |
| Net Loss | -0- | -0- | -0- | -0- | (3,078,891) | (3,078,891) |
| Balance, March 31, 2013 | 94,400,247 | \$94,400 | \$59,513,500 | \$(20,009,496) | \$(31,827,841) | \$7,770,563 |

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

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

| | For the three months ended March 31, | | For the Period January 1, 2009 (Beginning of Exploration Stage) through March 31, 2013 |
|---|---|----------------|---|
| | 2013 | 2012 | |
| Cash Flows From Operating Activities: | | | |
| Net loss | \$(3,078,891) | \$(1,809,040) | \$(31,827,841) |
| Adjustments to reconcile net loss to net cash used in operations: | | | |
| Depreciation | 78,798 | 81,076 | 894,986 |
| Amortization of deferred financing costs | -0- | - 0 - | 150,000 |
| Amortization of discount – PIK Notes | -0- | - 0 - | 367,534 |
| Issuance of PIK Notes in payment of interest | -0- | - 0 - | 863,870 |
| Stock issued for director and consulting services | 38,375 | 30,999 | 390,199 |
| Stock-based compensation expense | 1,284,842 | 641,112 | 6,516,293 |
| Gain on revaluation of warrant derivative | (495,000) | (990,000) | (1,350,000) |
| (Gain) loss on revaluation of stock awards | (14,000) | 21,000 | 232,500 |
| Gain on stock award forfeiture | -0- | - 0 - | (145,000) |
| Gain on disposition of assets | -0- | - 0 - | 5,390 |
| Gain on settlement of debts | -0- | - 0 - | (101,380) |
| Other non-cash expense (income) | -0- | - 0 - | (28,587) |
| Provision for doubtful accounts | -0- | - 0 - | 25,106 |
| Loss on impairment of assets | -0- | - 0 - | 66,881 |
| Change in operating assets and liabilities: | | | |
| Accounts receivable | (16,456) | 10,248 | (49,296) |
| Deposits and prepaids | 45,299 | (33,730) | 191,214 |
| Accounts payable and accrued expenses | (489,697) | (10,538) | 459,055 |
| Net cash (used in) provided by discontinued operations | -0- | - 0 - | 603,585 |
| Net cash used in operating activities | (2,646,730) | (2,058,873) | (22,735,491) |
| Cash Flows From Investing Activities: | | | |
| Purchases of land and mining property | -0- | - 0 - | (72,923) |
| Purchases of property and equipment | (402,986) | (49,389) | (808,601) |
| Deposits related to acquisition of equipment | -0- | - 0 - | (1,421,433) |
| Proceeds from sale of assets | -0- | - 0 - | 151,000 |
| Net cash provided by discontinued operations | -0- | - 0 - | 434,670 |
| Net cash used in investing activities | (402,986) | (49,389) | (1,717,287) |

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Cash Flows From Financing Activities:

| | | | |
|---|-------------|--------------|--------------|
| Payments on notes payable | (136,885) | (60,392) | (1,272,331) |
| Payments on leases payable | -0- | (10,094) | (431,088) |
| 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 | 5,560,000 | - 0 - | 21,370,000 |
| Payments for legal settlement | -0- | - 0 - | (170,000) |
| Net cash used by discontinued operations | -0- | - 0 - | (56,431) |
| Net cash provided by (used in) financing activities | 5,423,115 | (70,486) | 29,279,279 |
| | | | |
| Net change in cash and cash equivalents | 2,373,399 | (2,178,748) | 4,826,501 |
| | | | |
| Cash and cash equivalents at beginning of period | 3,356,103 | 10,170,536 | 903,001 |
| | | | |
| Cash and cash equivalents at end of period | \$5,729,502 | \$7,991,788 | \$5,729,502 |

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

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

| | For the three months ended March 31, | | For the Period January 1, 2009 (Beginning of Exploration Stage) through March 31, 2013 |
|--|--|----------|---|
| | 2013 | 2012 | |
| Cash Paid For: | | | |
| Interest | \$6,487 | \$4,312 | \$111,229 |
| Income Taxes | \$2,834 | \$ - 0 - | \$4,849 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities: | | | |
| Conversion of debt and accrued interest to common stock | \$-0- | \$ - 0 - | \$11,459,738 |
| Property and equipment financed on lease | \$-0- | \$ - 0 - | \$197,000 |
| Property and equipment financed with notes payable | \$-0- | \$ - 0 - | \$642,088 |
| Prepaid insurance financed with note payable | \$25,005 | \$ - 0 - | \$337,513 |
| Land reclassified from assets held for sale to land and mining property | -0- | -0- | \$445,180 |

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

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APPLIED MINERALS, INC.
(An Exploration Stage Mining Company)
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1 - BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited, condensed, consolidated financial statements contain all adjustments necessary to present fairly the financial position of Applied Minerals, Inc. ("Applied Minerals" or "the Company" or "we") and its results of operations and cash flows for the interim periods presented. Such financial statements have been condensed in accordance with the applicable regulations of the Securities and Exchange Commission and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2012, included in the Company's Annual Report filed on Form 10-K for such year. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the entire year. The condensed consolidated financial statements were prepared using accounting principles generally accepted in the United States of America ("GAAP"). These principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

NOTE 2 - ORGANIZATION AND DESCRIPTION OF BUSINESS

Applied Minerals, Inc. (the "Company") is the owner of the Dragon Mine located in the Tintic Mining District of the State of Utah from where it produces halloysite clay. The Dragon Mine also contains deposits of iron ore that the Company plans to commercialize in addition to the halloysite clay. The Company is currently in various phases of commercial scale trials with several organizations in various markets with respects to uses of halloysite clay.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Exploration-Stage Company

From 1997 through 2008, the Company's sole source of revenue and income was derived from its contract mining business through which it provided shaft sinking, underground mine development and mine labor services. At December 31, 2008, the Company discontinued its contract mining efforts due to economic conditions and the desire to concentrate its efforts on the commercialization of the halloysite clay deposit at the Dragon Mine.

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

Principles of Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include all highly-liquid investments with a maturity of three months or less. The Company minimizes its credit risk by investing its cash and cash equivalents, which sometimes exceeds FDIC limits, with major financial institutions located in the United States with a high credit rating. The Company’s management believes that no concentration of credit risk exists with respect to the investment of its cash and cash equivalents.

Receivables

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

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

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Property and Equipment

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

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

Depreciation expense for the three months ended March 31, 2013 and 2012 totaled \$78,798 and \$81,076, respectively. The Company currently does not capitalize any amounts related to proven or probable reserves and therefore does not have any depletion expense.

Impairment of Long-lived Assets

The Company periodically reviews the carrying amounts of long-lived assets to determine whether current events or circumstances warrant adjustment to such carrying amounts. Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, the Company compares the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset to its carrying amount. If this comparison indicates that there is an impairment, the amount of the impairment is typically calculated using discounted expected future cash flows where observable fair values are not readily determinable. Considerable management judgment is necessary to estimate the fair value of assets. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value, less cost to sell.

Revenue Recognition

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

Mining Exploration and Development Costs

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

Income taxes

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

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

not that they will not be realized.

The Company is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. Federal income tax returns subsequent to 2008 are subject to examination by major tax jurisdictions. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company follows the provision of ASC Topic 740-10, "Income Taxes", relating to recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and requires increased disclosures. This guidance provides that the tax effects from an uncertain tax position can be recognized in our financial statements, only if the position is more likely than not of being sustained on audit, based on the technical merits of the position.

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Stock Options and Warrants

The Company follows ASC 718 (Stock Compensation) and 505-50 (Equity-Based Payments to Non-employees), which provide guidance in accounting for share-based awards exchanged for services rendered and requires companies to expense the estimated fair value of these awards over the requisite service period. The Company instituted formal long-term and short-term incentive plans on November 20, 2012, when they were approved by its shareholders. Prior to that date, we did not have a formal equity plan, but all equity grants, including stock options and warrants, were approved by our Board of Directors. We determine the fair value of the stock-based compensation awards granted to non-employees as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either of (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete.

Per share data

Loss per share for the three months ended March 31, 2013 and 2012, respectively, is calculated based on 93,681,139 and 89,136,400 weighted average outstanding shares of common stock.

At March 31, 2013 and 2012, respectively, the Company has outstanding options and warrants to purchase 21,706,267 and 18,247,188 shares of Company common stock, which were not included in the diluted computation as their effect would be anti-dilutive.

Environmental Matters

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

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

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

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." Specifically, the new guidance allows an entity to present components of net income or other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. The new guidance is effective for fiscal years and interim periods beginning after December 15, 2011 and is to be applied retrospectively. The adoption of ASU 2011-05 did not have any impact on

the Company's condensed consolidated financial statements because at March 31, 2013 and 2012, the Company did not have any comprehensive income items.

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This guidance is intended to provide disclosure on items reclassified out of accumulated other comprehensive income ("AOCI") either in the notes or parenthetically on the face of the income statement. As the Company has no AOCI, adoption of this ASU has no impact on the Company's financial statements.

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NOTE 4 - STOCK AWARD PAYABLE

In 2007, the Company agreed to grant 100,000 shares in total to an Executive Vice President, John Gaensbauer, as part of his employment agreement. Shortly after the time of the grant in 2007, Mr. Gaensbauer resigned his position without the shares being issued. As such, the Company recorded the stock grant as a liability and revalues it based on the quoted price of the Company's stock at the end of each period. The Company continues to explore its options to resolve this outstanding issue. The value of the outstanding stock awards at March 31, 2013 and December 31, 2012 were \$140,000 and \$154,000, respectively, thus resulting in a \$14,000 gain on the revaluation of the remaining stock award for the three months ended March 31, 2013.

NOTE 5 - INCOME TAX

Income tax provisions or benefits for interim periods are computed based on the Company's estimated annual effective tax rate. Based on the Company's historical losses and its expectation of the continuation of losses for the foreseeable future, the Company has determined that it is not more likely than not that deferred tax assets will not be realized and, accordingly, has provided a full valuation allowance as of March 31, 2013 and December 31, 2012.

NOTE 6 - NOTES PAYABLE

Notes payable at March 31, 2013 and December 31, 2012 consist of the following:

| | March 31, 2013 (unaudited) | December 31, 2012 |
|--|----------------------------------|----------------------|
| Note payable for mining equipment, payable \$5,556 monthly, including interest (a) | \$ 83,273 | \$ 97,769 |
| Note payable for mining equipment, payable \$950 monthly, including interest (b) | 29,585 | 31,565 |
| Note payable for mining equipment, payable \$6,060 monthly, including interest (c) | 132,004 | 142,840 |
| Note payable for mining equipment, payable \$7,409 monthly, including interest (d) | -0- | 10,130 |
| Note payable for mining equipment, payable \$5,000 monthly, including interest (d) | 39,188 | 53,517 |
| Note payable for mine site vehicle, payable \$628 monthly, including interest (e) | 33,303 | 35,816 |
| Note payable for mining equipment, payable \$5,000 monthly, including interest (f) | 53,517 | 64,708 |
| Note payable for mining equipment, payable \$1,632 monthly, including interest (g) | 29,216 | 32,192 |
| Note payable to an insurance company, payable \$16,604 monthly, including interest (h) | 68,315 | 98,714 |
| Note payable to an insurance company, payable \$4,447 monthly, including interest (i) | 17,615 | 30,645 |
| | 486,016 | 597,896 |
| Less: Current Portion | (355,399) | (413,470) |
| Notes Payable, Long-Term Portion | \$ 130,617 | \$ 184,426 |

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

(b)

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

- (c) On July 23, 2012, the Company purchased mining equipment for \$169,500 by issuing a note with an interest rate of 5.5%. The note is collateralized by the mining equipment with payments of \$6,060 for 30 months, which started on August 25, 2012
- (d) On July 19, 2012, the Company purchased two pieces of mining equipment that had been leased for \$39,042 and \$79,735, respectively, by issuing notes with an implicit interest rate of 5.5% and are collateralized by the mining equipment with payments of \$ 7,409 and \$5,000 for 4 and 15 months, respectively
- (e) On September 20, 2012, the Company purchased a vehicle for the mine site for \$37,701 by issuing a note with an interest rate of 0%. The note is collateralized by the vehicle with payments of \$628 for 60 months, which started on October 20, 2012
- (f) On November 16, 2012, the Company purchased a piece of mining equipment that had been leased for \$67,960 by issuing a note with an effective interest rate of 5.5%. The note is collateralized by the mining equipment with payments of \$3,518 for three months, then \$5,000 for twelve months
- (g) On November 16, 2012, the Company purchased a piece of mining equipment that had been leased for \$33,748 by issuing a note with an effective interest rate of 5.5%. The note is collateralized by the mining equipment with payments of \$1,632 for five months, then \$2,250 for twelve months
- (h) The Company signed a note payable with an insurance company dated October 17, 2012 for directors' and officers' insurance, due in monthly installments, including interest at 3.15%. The note will mature in June 2013.
- (i) The Company signed a note payable with an insurance company dated October 17, 2012 for liability insurance, due in monthly installments, including interest at 4.732%. The note will mature in July 2013

The following is a schedule of the principal maturities for the next five years and the total thereafter on these notes as of March 31, 2013:

| | |
|-------------------------|-----------|
| April 2013 - March 2014 | 355,399 |
| April 2014 - March 2015 | 100,187 |
| April 2015 - March 2016 | 18,178 |
| April 2016 - March 2017 | 8,482 |
| April 2017 - March 2018 | 3,770 |
| Thereafter | -0- |
| Total Notes Payable | \$486,016 |

During the three months ending March 31, 2013, the Company's interest payments totaled \$6,487.

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NOTE 7 - STOCKHOLDERS' EQUITY

During the three months ended March 31, 2013, the Company issued a total of 24,046 shares of common stock valued at \$38,375 to directors and consultants as payments of fees. In addition, on January 23, 2013 the Company sold, in a privately negotiated transaction, 3,756,757 shares of its common stock at \$1.48 per share for gross proceeds of \$5,560,000. No broker was used and no commission was paid as part of this transaction.

NOTE 8 - OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK

Derivative Instruments - Warrants

The Company issued 5,000,000 warrants ("Samlyn warrants") in connection with the December 22, 2011 private placement of 10,000,000 shares of common stock. The strike price of these warrants was \$2.00 per share at the date of grant. These warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. These warrants were issued with a down-round provision whereby the exercise price would be adjusted downward in the event that additional shares of the Company's common stock or securities exercisable, convertible or exchangeable for the Company's common stock were issued at a price less than the exercise price. Therefore, the fair value of these warrants were recorded as a liability in the balance sheet until they are exercised or expire or otherwise extinguished. As discussed in Note 7, during the first quarter of 2013, the Company issued 3,756,757 shares of its common stock for gross proceeds of \$5,560,000, which triggered a down-round adjustment in the strike price of the Samlyn warrants of \$0.03 from \$2.00 to \$1.97, as discussed above.

The proceeds from the private placement were allocated between the Common Shares and the Warrants issued in connection with the Private Placement based upon their estimated fair values as of the closing date at December 22, 2011, resulting in the aggregate amount of \$6,420,000 to the Stockholders' Equity and \$3,580,000 to the warrant derivative. During 2012, the Company began using a binomial lattice model to value its warrant derivative liability. Based on the value estimated using the lattice model, a reclassification was recorded as of January 1, 2012 to increase Stockholder's Equity by \$780,000 and decrease the warrant derivative liability by the same amount representing the decrease in fair value of the warrant at date of issuance. This adjustment was not considered by management to be material to the 2011 financial statements. During the three months ended March 31, 2013 and 2012, the Company recorded other income of \$495,000 and \$990,000 respectively, as the liability during each of the quarters declined.

Outstanding Stock Warrants

No warrants were issued during the three months ended March 31, 2013. A summary of the status of the warrants outstanding and exercisable at March 31, 2013 is presented below:

| Warrants Outstanding and Exercisable | | | |
|--------------------------------------|--------------------|---|---------------------------------|
| Exercise Price | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price |
| \$ 0.75 | 139,340 | 2.54 years | \$ 0.75 |
| \$ 0.78 | 213,402 | 2.88 years | \$ 0.78 |
| \$ 0.80 | 124,481 | 2.79 years | \$ 0.80 |
| \$ 1.00 | 212,000 | 2.38 years | \$ 1.00 |
| \$ 1.15 | 461,340 | 8.11 years | \$ 1.15 |
| \$ 1.97 | 5,000,000 | 3.72 years | \$1.97 |

| | | | |
|---------|-----------|------------|---------|
| \$ 2.00 | 54,367 | 3.38 years | \$ 2.00 |
| | 6,204,930 | | |

No compensation expense has been recognized for the vesting of warrants to consultants and other outside service providers in the accompanying statements of operations for the three months ended March 31, 2013.

Outstanding Stock Options

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

The expected term of awards granted to employees and directors 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 issued for the three months ended March 31, 2013 and 2012 were as follows:

| | 2013 | 2012 |
|-------------------------|--------------|-------------|
| Dividend Yield | 0% | 0% |
| Expected Life | 5 - 10 years | 5 years |
| Expected Volatility | 83% | 89% |
| Risk Free Interest Rate | 0.88%-1.66% | 0.72%-1.06% |

A summary of the status and changes of the options granted under stock option plans and other agreements for the period ended March 31, 2013 is as follows:

| | Shares | Weighted Average Exercise Price |
|----------------------------------|------------|--|
| Outstanding at December 31, 2012 | 15,455,470 | \$ 1.04 |
| Issued | 45,867 | 1.58 |
| Exercised | -- | -- |
| Outstanding at March 31, 2013 | 15,501,337 | \$1.04 |

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During the three months ended March 31, 2013, the Company issued 45,867 options to purchase the Company's common stock with an exercise price of \$1.58 and grant date fair value of \$50,000. The granted options vest over a twelve-month period of time pursuant to the employee's employment agreement. A summary of the status of the options outstanding at March 31, 2013 is presented below:

| Exercise Price | Number Outstanding | Options Outstanding | | Options Exercisable | |
|----------------|--------------------|---|---------------------------------|---------------------|---------------------------------|
| | | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$ 0.70 | 7,358,277 | 5.76 years | \$ 0.70 | 7,358,277 | \$ 0.70 |
| \$ 0.83 | 3,205,134 | 7.48 years | \$ 0.83 | 3,205,134 | \$ 0.83 |
| \$ 1.00 | 60,000 | 1.94 years | \$ 1.00 | 60,000 | \$ 1.00 |
| \$ 1.24 | 100,000 | 4.91 years | \$ 1.24 | 100,000 | \$ 1.24 |
| \$ 1.45 | 125,000 | 4.91 years | \$ 1.45 | 125,000 | \$ 1.45 |
| \$1.55 | 330,000 | 8.14 years | \$1.55 | 116,667 | \$1.55 |
| \$1.58 | 45,867 | 4.91 years | \$1.58 | 7,644 | \$1.58 |
| \$1.66 | 3,077,059 | 9.78 years | \$1.66 | 823,569 | \$1.66 |
| \$ 1.75 | 300,000 | 9.24 years | \$ 1.75 | 165,000 | \$ 1.75 |
| \$ 1.90 | 900,000 | 8.46 years | \$ 1.90 | 475,000 | \$ 1.90 |
| | 15,501,337 | | \$ 1.04 | 12,436,291 | \$ 0.88 |

At March 31, 2013, the total compensation expense of \$4,282,426 for unvested options is to be recognized over the next twenty five months on a weighted average basis.

Compensation expense of \$1,284,842 has been recognized for vesting of options for the three months ended March 31, 2013. The aggregate intrinsic value of the outstanding options as of March 31, 2013 was \$7,017,720 .

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Commitments

The following table summarizes our contractual obligations as of March 31, 2013 that require us to make future cash payments:

| | Total | Payment due by period | | | |
|--------------------------|------------|-----------------------|-------------|-------------|-----------|
| | | < 1 year | 1 - 3 years | 3 - 5 years | > 5 years |
| Contractual Obligations: | | | | | |
| Rent obligations | \$ 241,042 | \$ 137,604 | \$ 103,438 | -0- | -0- |
| Capital Purchase | | | | | |
| Obligations (1) | 458,363 | 458,363 | -0- | -0- | -0- |
| Total | \$ 699,405 | \$ 595,967 | \$ 103,438 | -0- | -0- |

(1) Capital purchase obligations represent commitments for the construction or purchase of property, plant and equipment. They were not recorded as liabilities on our consolidated balance sheet as of March 31, 2013, as we had not yet received the related goods or taken title to the property.

Contingencies

In accordance with ASC Topic 450, when applicable, the Company records accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. Currently, we have no lawsuits, claims, proceedings and investigations pending involving us.

NOTE 10 - RELATED PARTY

The Company is a related party to Material Advisors, an entity that provided the Company's management personnel through December 31, 2012. During 2013, the Company started to pay the key management personnel on an individual basis.

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

Forward-looking Statements

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

Overview

Applied Minerals, Inc. is a leading global producer of halloysite clay that can be used in the development of advanced polymer, catalytic, environmental remediation, and controlled release applications. The Company operates the Dragon Mine located in Juab County, Utah. We believe that we possess the only measured resource of halloysite clay in the Western Hemisphere large enough, and of high enough purity, to supply commercial-sized application demand. Halloysite is an aluminosilicate clay that forms naturally occurring nanotubes. Traditionally, halloysite has been used in markets such as technical ceramics and catalytic applications. The Company has identified niche applications that benefit from the tubular morphology of its halloysite. These applications include carriers of active ingredients in paints, coatings and building materials, environmental remediation, agricultural applications and high-performance additives and fillers for plastic composites.

Since January 1, 2009, we have sold \$283,780 of halloysite clay to companies using it in the production of a number polymer-based applications. We have three grades of halloysite products, the difference among them being the percentage of halloysite contained in each. We also differentiate our halloysite products based on color. At times, we surface treat our product to achieve certain performance characteristics required by customers' products. We believe that a number of potential customers are at various stages of the commercialization process. The Company currently markets its line of halloysite-based products under the Dragonite™ name. In addition to halloysite, the Dragon Mine also contains iron ore, including goethite and hematite. Pricing is based on a variety of factors, including the different grades of product and the markets we serve.

Our financial statements contain significant net losses, which result primarily from our investment in the development of our Dragon Mine, including drilling and laying the foundation for commercialization of our various products. We have invested in miners, equipment, supplies, geologists, consultants, sample testing and a corporate infrastructure to guide us into full production. We are considered an exploration-stage company under SEC Industry Guide 7 since we have not demonstrated the existence of proven or probable reserves at our Dragon Mine. Furthermore, because we have not produced a significant amount of revenues to date, we are considered an exploration stage company for U.S. GAAP. Accordingly, as required by the SEC guidelines and U.S. GAAP for companies in the exploratory stage, substantially all of our investment in our Dragon Mine to date have been expensed and, therefore, do not appear as assets on our condensed consolidated balance sheet. We expect to expense additional exploration expenditures in 2013 related to the Dragon Mine.

Our characterization as an exploration stage company and the required classification of exploration expenditures as an operating expense rather than as a capital expenditure has caused us to report larger net losses in 2013 and 2012 than if we had capitalized the expenditures as development costs. Additionally, we will not have a corresponding depletion, depreciation or amortization expense for these costs in the future since they are expensed as incurred rather

than capitalized. In comparison to other mining companies that capitalize development expenditures because they have exited the exploration stage, we may report lesser profits, or greater losses, as a result of this ongoing exploration, which will be expensed instead of capitalized for accounting purposes. We will not exit the exploration stage until such time that we demonstrate the existence of proven or probable reserves that meet the SEC guidelines.

Recent Business Developments

- In January 2013, the Company sold, in a privately negotiated transaction, 3,756,757 shares of its common stock at \$1.48 per share for gross proceeds of \$5,560,000. No broker was used and no commission was paid as part of this transaction, which displays an ongoing commitment from our investors.
- The building of our new milling operation, originally scheduled to be completed in March 2013, has been delayed mainly due to the timing of steel fabrication and design. Our table roller mill has been delivered and we expect to complete the project during the second half of the year.
- Meanwhile, the building of our new mill has not delayed our ongoing discussions with various companies in the following areas: flame retardants, proppants, cosmetics and utilization of our iron ore for various commercial purposes.

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Critical Accounting Policies and Estimates

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

Use of Estimates

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

Fair Value

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 - significant unobservable inputs

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

| | Fair value measurement using inputs | | | Carrying amount | |
|--------------------------------|-------------------------------------|--------------|---------|-----------------|-------------------|
| | Level 1 | Level 2 | Level 3 | March 31, 2013 | December 31, 2012 |
| F i n a n c i a l instruments: | | | | | |
| Warrants derivative | | \$ 1,450,000 | | \$ 1,450,000 | \$ 1,945,000 |

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, receivables, other current assets, and accounts payable and accrued expenses approximate their fair value of the respective assets and liabilities at March 31, 2013 and December 31, 2012 based upon the short-term nature of the assets and liabilities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of notes payable approximate fair value. For the Company's warrant derivative liability, fair value was estimated using a Binomial Lattice Model using the following assumptions:

| | Fair Value Measurements Using Inputs | |
|--|---|-------------------|
| | March 31, 2013 | December 31, 2012 |
| Market price and estimates fair value of stock | \$1.40 | \$ 1.54 |
| Exercise price | \$ 1.97 | \$ 2.00 |
| Term (years) | 3.75 | 4 |

| | | |
|-------------------------|--------|--------|
| Dividend yield | \$ -0- | \$ -0- |
| Expected volatility | 83.3% | 83.3% |
| Risk-free interest rate | 0.51% | 0.54% |

Impairment of Long-Lived Assets

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

Mining Exploration and Development Costs

Land and mining property are carried at cost. The Company expenses prospecting and mining exploration costs. At the point when a property is determined to have proven and probable reserves, subsequent development costs are capitalized. When these properties are developed and operations commence, capitalized costs will be charged to operations using the units-of-production method over proven and probable reserves. Upon abandonment or sale of a mineral property, all capitalized costs relating to the specific property are written off in the period abandoned or sold and a gain or loss is recognized. For all periods through March 31, 2013, all costs associated with the Company's mines, excluding original acquisition cost, have been expensed as the Company remains an exploration stage company.

Provision for Income Taxes

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

Stock Options and Warrants

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

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Results of Operations for the Three Months Ended March 31, 2013 as Compared to the Three Months Ended March 31, 2012

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

| | 2013 | | Three Months Ended March 31, 2012 | | Variance | |
|--|---------------|------------|--------------------------------------|-----------|---------------|---------|
| | Amount | % of Rev. | Amount | % of Rev. | Amount | % |
| REVENUES | \$25,086 | 100 % | \$55,402 | 100 % | \$(30,316) | (55 %) |
| OPERATING (INCOME) EXPENSES: | | | | | | |
| Production costs | 15,767 | 63 % | 42,492 | 77 % | (26,725) | (63 %) |
| Exploration costs | 1,367,612 | 5,452 % | 694,964 | 1,254 % | 672,648 | 97 % |
| General and administrative | 2,145,423 | 8,552 % | 2,009,341 | 3,627 % | 136,082 | 7 % |
| Depreciation expense | 78,798 | 314 % | 81,076 | 146 % | (2,278) | (3 %) |
| Total Operating Expenses | 3,607,600 | 14,381 % | 2,827,873 | 5,104 % | 779,727 | 28 % |
| Operating Loss | (3,582,514) | (14,281 %) | (2,772,471) | (5,000 %) | (810,043) | 29 % |
| OTHER INCOME (EXPENSE): | | | | | | |
| Interest expense, net, including amortization of deferred financing deferred financing cost and debt | (4,933) | (20 %) | (3,190) | (6 %) | (1,743) | 55 % |
| Discount | (4,933) | (20 %) | (3,190) | (6 %) | (1,743) | 55 % |
| (Loss) gain on revaluation of warrants | 495,000 | 1,973 % | 990,000 | 1,787 % | (495,000) | (50 %) |
| Gain (loss) on revaluation of stock award | 14,000 | 56 % | (21,000) | (38 %) | 35,000 | 167 % |
| Other income (expense) | (444) | (2 %) | (544) | (1 %) | 100 | 18 % |
| Total Other Income (Expense) | 503,623 | 2,008 % | 965,266 | 1,742 % | (461,643) | (48 %) |
| Loss from continuing operations | (3,078,891) | (12,273 %) | (1,807,205) | (3,262 %) | (1,271,686) | 70 % |
| Income (loss) from discontinued operations | -0- | 0 % | (1,835) | (3 %) | 1,835 | (100 %) |
| Net Loss Attributable to Applied Minerals | \$(3,078,891) | (12,273 %) | \$(1,809,040) | (3,265 %) | \$(1,269,851) | 70 % |

Revenue for the three months ended March 31, 2013 was \$25,086, compared to \$55,402 generated during the same period in 2012. Quarterly revenue may be unpredictable as we are in various stages of product development and ongoing product trials involving potential customers. We believe a number of these potential customers are at various stages of the commercialization process utilizing our Dragonite™ halloysite clay and iron ore but can provide no assurances that such commercialization efforts will be successful.

Total operating expenses incurred during the three months ending March 31, 2013 were \$3,607,600 compared to \$2,827,873 incurred during the same period in 2012, an increase of \$779,727 or 28%. The increase was due primarily to a \$672,648, or 97%, increase in exploration costs and a 136,082, or 7%, increase in general and administrative costs.

Exploration costs incurred during the three months ended March 31, 2013 were \$1,367,612 compared to approximately \$694,964 of costs incurred during the same period in 2012, an increase of approximately \$672,648, or 97%. 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 further expand its drilling and testing program, for both clay and iron ore, to additional areas of the Dragon Mine property. The results of the expanded drilling program indicate the presence of additional saleable clay mineral and iron ore in addition to other minerals. The primary drivers of the increase in exploration costs included a \$236,825, or 76%, increase in employee compensation due to an increase in the general activity of the Company's workforce and severance to certain employees; a \$235,493 increase in contract labor as we engaged a third party drilling contractor to conduct a deep drilling program; a \$50,572, or 59%, increase in consulting and geologist expenditures; a \$47,928 increase in drilling supplies and products; a \$42,835, or 322%, increase in ground support expense for the mine; and a \$38,450, or 86%, in contract testing of clay and iron drill samples.

General and administrative expenses incurred during the three months ended March 31, 2013 totaled \$2,145,423 compared to \$2,009,341 of expense incurred during the same period in 2012, an increase of approximately \$136,082 or 7%. The largest variance was in noncash stock compensation expense of \$637,437, followed by an increase in auditing services of \$21,894 related to the Company's change in auditors during the second quarter of 2012; an increase in corporate rent of \$21,894 due to the Company's move to a larger corporate office to accommodate additional employees; and an increase in legal service of \$15,364. These increases were offset by a \$588,177 decline in employee and consultant compensation expense, driven primarily by the absence of a \$750,000 bonus incurred during the first quarter of 2012, partially offset by \$161,829 increase in compensation and benefits related to the addition of key corporate personnel, such as a CFO and Senior Manager of Research & Development.

Loss from Continuing Operations for the three months ended March 31, 2013 was \$3,078,891, compared to a loss of \$1,807,205 incurred during the same period in 2012, an increase of approximately \$1,271,686 or 70%. The increase in the loss from exploration stage before discontinued operations was due primarily to a \$779,727 increase in operating expenses (as previously described), and a \$461,643 decrease in Other Income, mainly related to the revaluation of warrants associated with a financing executed in December 2011.

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LIQUIDITY AND CAPITAL RESOURCES

From December 2008 through September 2012, our activities have been financed primarily through the sale of convertible debt and equity securities. We may need to raise additional capital during 2013, through the sale of equity, debt or the disposal of certain non-core assets, to successfully fund our operations. If we cannot raise enough capital through the sale of equity securities, the assumption of debt, the monetization or financing 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, 2013, we had a total accumulated deficit of \$51,837,337. For the three months ended March 31, 2013 and 2012, we sustained losses from continuing operations of \$3,078,891 and \$1,807,205, respectively. 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. We believe that we have sufficient resources and plans to continue as a going concern for the next twelve months. We plan to generate additional liquidity through a combination of expected cash generated from operations, proceeds received from the sale of certain assets, and the utilization of various financing alternatives, including additional financing from existing investors.

Cash used in operating activities during the three months ended March 31, 2013 was \$2,646,730 compared to \$2,058,873 during the same period in 2012. The \$587,857 increase in cash used in operating activities was due primarily to additional funding of the Company's milling and drilling operations as discussed in Results of Operations.

Cash used in investing activities during the three months ended March 31, 2013 was \$402,986 compared to \$49,389 during the same period in 2012. During the first quarter of 2013, the Company invested \$369,896 in building and equipment expenditures for its new milling facility. All of this investment has been classified as Property and Equipment on the Company's consolidated balance sheet.

Cash provided by financing activities during the three months ended March 31, 2013 was \$5,423,115 compared to \$70,486 used during the same period in 2012. In January 2013, the Company sold, in a privately negotiated transaction, 3,756,757 shares of its common stock at \$1.48 per share for gross proceeds of \$5,560,000. No broker was used and no commission was paid as part of this transaction.

OFF-BALANCE SHEET ARRANGEMENTS

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

The following table summarizes our contractual obligations as of March 31, 2013 that require us to make future cash payments. For contractual obligations, we included payments that we have an unconditional obligation to make:

| | Payment due by period | | | | |
|----------------------------------|-----------------------|------------|-------------|-------------|-----------|
| | Total | < 1 year | 1 - 3 years | 3 - 5 years | > 5 years |
| Contractual Obligations: | | | | | |
| Rent obligations | \$ 241,042 | \$ 137,604 | \$103,438 | -0- | -0- |
| Capital Purchase Obligations (1) | 458,363 | 458,363 | -0- | -0- | -0- |
| Total | \$ 699,405 | \$ 595,967 | \$ 103,438 | -0- | -0- |

(1) Capital purchase obligations represent commitments for the construction or purchase of property, plant and equipment. They were not recorded as liabilities on our consolidated balance sheet as of March 31, 2013, as we had not yet received the related goods or taken title to the property.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were, as of the end of the fiscal quarter covered by this quarterly report, effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated our internal controls over financial reporting to determine whether any changes occurred during the quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In accordance with ASC Topic 450, when applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. In addition to the matters described herein, we may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, could have a material adverse effect on our financial condition, cash flows or results of operations. Currently, we have no lawsuits, claims, proceedings and investigations pending or threatened involving us.

ITEM 1A. RISK FACTORS.

There were no additions or material changes to the Company's risk factors as disclosed in Item 1A of Part I in the Company's 2012 Annual Report on Form 10-K.

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

During the first quarter of 2013, we issued stock not registered under the Securities Act as listed below. Management at the time deemed such issuances to be exempt under Section 4(2) of the Securities Act and indicated that all sales were made to accredited investors.

During the first quarter of 2013, the Company issued 4,464 shares of its common stock valued at \$6,875 as payment of a director's fee, and 19,582 shares of its common stock valued at \$31,500 to consultants for services.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

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

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits.

The following exhibits are included in this report:

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

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SIGNATURES

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

APPLIED MINERALS, INC.

Dated: May 9, 2013

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

Dated: May 9, 2013

/s/ NAT KRISHNAMURTI
By: Nat Krishnamurti
Chief Financial Officer

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