ATLAS MINING CO
Form 10-K
July 15, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2007

Commission file number: 000-31380

ATLAS MINING COMPANY
(Exact name of registrant as specified in its charter)

Idaho	82-0096527
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

110 Greene Street – Ste 1101, New York, NY	10012
(Address of principal executive offices)	(Zip Code)

(208) 556-1181
Issuer's telephone number, including area code

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NOX

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act:
YES NOX

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.
YES NOX

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 X	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 X

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2007, based on the last sales price on the pink sheets on that date, was approximately $123,863,681. The number of shares of the registrant's common stock, no par value per share, outstanding as of December 31, 2007 was 54,173,594.

DOCUMENTS INCORPORATED BY REFERENCE: None.

ATLAS MINING COMPANY AND SUBSIDIARIES
YEAR 2007 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

	PART I	Page(s)
Item 1.	Business	2 – 6
Item 1A.	Risk Factors	7 – 9
Item 1B.	Unresolved Staff Comments	9
Item 2.	Properties	10 – 11
Item 3.	Legal Proceedings	12 – 13
Item 4.	Submission of Matters to a Vote of Securities Holders	13
	PART II	
Item 5.	Market Price for the Registrant's Common Equity, Related Stockholders Matters and Issuer Purchases of Equity Securities	14 – 16
Item 6.	Selected Financial Data	16
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operation	17 – 25
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	26
Item 8.	Financial Statements and Supplementary Data	26
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	27
Item 9A.	Controls and Procedures	27 – 31
Item 9B.	Other Information	32
	PART III	
Item 10.	Directors and Executive Officers and Corporate Governance	33 – 34
Item 11.	Executive Compensation	35– 36
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	37
Item 13.		38

	Certain Relationships and Related Transactions, and Director Independence	
Item 14.	Principal Accounting Fees and Services	39
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	F-1 to F-42

PREFATORY NOTE

This Annual Report on Form 10-K for the year ended December 31, 2007 was to be filed on or before March 15, 2008. It was not filed in a timely manner. On January 11, 2008 a Special Committee of the Board of Directors was appointed to review and investigate the conduct of our prior management and any issues arising therefrom. The Special Committee reported its findings to the staff of the Securities and Exchange Commission ("SEC") in July 2008 and issued a press release summarizing its findings in August 2008. The Special Committee concluded that it was necessary to restate the financial statements and to file amended Quarterly Reports of Form 10-Q for the fiscal quarters ended March 31 and June 30, 2007. It was necessary to file the amended reports and the quarterly report for the fiscal quarter ended September 30, 2007 before this Annual Report on Form 10-K could be filed.

Financial statements for the period ended December 31, 2007 were not released prior to the filing of this report.

This report includes financial statements as of December 31, 2006. Those financial statements have been restated from the financial statements included in the Annual Report on Form 10-K for the period ended December 31, 2006. The restatements at December 31, 2006, March 31, 2007 and June 30, 2007 relate to the matters set forth in Note 11 to the financial statements.

Generally speaking, the narrative portions of this 10-K speak as of December 31, 2007 unless otherwise noted. In this connection it should be noted that:

- The only revenues from operations during 2007 and 2008 were generated by the Company's Contract Mining operations. Those operations were discontinued and shut down permanently on December 31, 2008 and are not expected to be restarted;

- Operations at the Dragon Mine were suspended in October 2007 and remained suspended throughout 2008; and

- The following persons are no longer with the Company:

  i. all persons who were directors as of December 31, 2007;

  ii. all other persons who were directors at times prior thereto who are referred to in the narrative portions of this report,

  iii. the persons (there were two) who served as president and CEO of the Company at any time during 2007; and

  iv. the person who was president and CEO of Nano Clay & Technologies, Inc., our subsidiary, during 2007.

- Because the disclosure in this report makes certain statements as to conditions and beliefs of, and information available to, the Company and management during the period covered by this report and because the management during 2007 has been replaced, it has been necessary for us to make certain assumptions as to what were the Company's or the Board of Directors' conditions, beliefs and information as of December 31, 2007 and prior thereto.

NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K 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. Factors that might cause such a difference include, but are not limited to, those discussed in the section of this Annual Report entitled “1A. RISK FACTORS.”

PART I

ITEM 1. BUSINESS

HISTORY AND DEVELOPMENT OF THE COMPANY

Atlas Mining Company, (“the Company”) was incorporated in the state of Idaho on March 4, 1924. The Company was formed for the purpose of exploring and developing the Atlas Mine, a consolidation of several patented mining claims located in the Coeur d’Alene Mining District near Mullan, Idaho. The Company eventually became inactive as a result of low silver prices. In September 1997, the Company became active again. During the years ended December 31, 2007 and 2006, the Company provided shaft sinking, underground mine development and mine labor primarily to companies in the mining and civil industries. Historically, the Company’s contract mining operation have been its sole source of revenue and income

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

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

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

more effective alternative to the materials upon which these current technologies are established. Other above-mentioned applications are being developed to specifically utilize the structural characteristics of the clay resource.

The Dragon Mine property contains halloysite, kaolinite, alunite and other minerals located underground and in waste piles that are the result of previous mining operations. The geological resource survey being conducted on the Dragon Mine has involved the assessment of approximately 10,000 feet of borehole drill cores and the analysis of samples taken from the five waste piles located at the mine site. The survey has included X-ray diffraction analysis to determine the levels of halloysite, kaolinite and other minerals found in the resource. Initial studies have indicated that conventional processing may be used to separate the halloysite and kaolinite fractions from alunite and other minerals found in the Dragon Mine resource. The geology of the deposit shows alterations of feldspar identified along side the presence of monzanite, halloysite and kaolinite. Purer halloysite found at the mine has been identified along side the presence of iron ore. The morphology of the halloysite identified at the Dragon Mine, as determined by Scanning Electron Microscopy (“SEM”) analysis, demonstrates the existence of both lath-like and tubular formations. The kaolinite present at the Dragon Mine has been determined to possess a highly crystalline structure.

NaturalNano, Inc. (OTC: NNAN), in conjunction with Cascade Engineering and it’s subsidiary, Noble Polymers, has developed Pleximer ™, a halloysite nanotube concentrate used to create stronger, lighter, environmentally friendlier and lower-cost polymer-based nanocomposites. According to NaturalNano’s 2008 annual report, Pleximer ™ is being marketed to the global nanocomposites market that, in the estimation of BCC Research, is expected to grow from $273 million in 2005 to $4.0 billion by 2015. According to BCC Research, clay-based nanocomposites are expected to represent 47% of the nanocomposites market by 2010. The U.S. Department of the Navy, represented by the Naval Research Lab (NRL”), has patented a technology that provides for the controlled release of active agents using inorganic tubules such as halloysite clay. The U.S. Navy’s technology has been licensed by at least two companies that are developing controlled-release applications for the fields of electromagnetic shielding/strength enhancement, cosmetics, fragrances, agriculture, ink and paper, electronics, fabrics and textiles, local drug delivery and mold-resistant building products. The U.S. Navy has also patented a technology that permits a controlled release of an active agent as an anti-scaling treatment for environments such as oil wells.

As of the date of this report, a study is being conducted to identify the applications for which the Dragon Mine resource may provide functionality. Processed clay samples have been distributed to potential customers who have requested halloysite and/or halloysite-kaolinite mixtures. A number of advanced applications to which the Company plans to market its resource are currently using plate-like structured clays that must undergo expensive exfoliation process to achieve proper functionality. The tubular morphology of the Dragon Mine resource does not require such an exfoliation process to achieve similar or, in many instances, greater functionality. Management, therefore, believes that it may be able to deliver its processed mineral to market at price points lower than those of competing clays, without sacrificing performance.

In addition to certain advanced applications previously mentioned, we believe the Dragon Mine resource may also be marketed to certain established, low-tech applications such as, but not limited to, fine porcelain, bone china, high-performance advanced technical ceramics, paint fillers, suspension agents, animal feed, cement hardeners, and food and pharmaceutical additives. Markets, such as fine porcelain and bone china, would likely require the Dragon Mine clay resource be processed for increased brightness and reduced presence of titanium whereas applications, such as a cement hardener, would require a relatively unprocessed version of the Dragon Mine resource. Management, as part of its overall business strategy, will continually assess the economic feasibility of pursuing potential markets.

Management believes that both existing and potential applications that utilize the Dragon Mine resource will require varying grades of clay to satisfy the unique technical requirements of each application. Some applications may require pure halloysite, composed of tubular and/or lath-shaped particles while other applications may require a grade of clay consisting of a specific halloysite-kaolinite ratio. The determination of the appropriate grade of clay will likely require significant technical cooperation between the Company and the developer of the related application. As previously mentioned, the Company has hired a consulting firm to identify a processing system capable of producing the grades of clay required by potential applications. The identification of such a system is ongoing.

In 2009, the Company entered into a development agreement with Yuri M. Lvov, Ph.D., a professor of chemistry at Louisiana Tech University and the T.C. Pipes Eminent Endowed Chair on Micro and Nanosystems at the Institute for Micromanufacturing (LaTech). The scope of the agreement includes, among other things, the development of the Dragon Mine halloysite as part of an anti-corrosion paint application in addition to the development of other emerging applications.

CONTRACT MINING

AFC was engaged in exploration and mine development as well as preparatory work such as site evaluation, feasibility studies, trouble-shooting and consultation. AFC's projects include all types of underground mine development, rehabilitation and diamond drilling. At December 31, 2008, we discontinued our contract mining efforts due to economic conditions and the desire to concentrate our efforts on commercializing the halloysite clay deposit at the Dragon Mine. There are no plans to resume the contract mining business.

DRAGON MINE

The Dragon Mine is located in the Tintic District of north central Utah. The property is 2 miles southwest the town of Eureka which, in turn, is approximately 75 miles southwest of Salt Lake City. The mine is approximately 230 acres.

From 1949 through 1976 Filtrol Corporation operated the Dragon Mine. To the best of our knowledge, Filtrol mined approximately 1.35 million tons of clay valued at approximately $50 million for use as an input for a petroleum-cracking catalyst product. The mine was idle from 1977 until we leased it in 2001. In July 2001, the Company began leasing the Dragon Mine from Conjecture Silver Mines, Inc. of Spokane, Washington. The Company initially paid 400,000 shares of common stock, valued at $100,000, for a one-year lease. Under the terms of the lease agreement, the Company had the right to renew the lease annually in exchange for 100,000 additional shares of our common stock or the option to purchase the property for $500,000. The Company issued 100,000 shares of stock for each year of the lease for the years 2002 – 2005 and exercised the right to purchase the mine on August 18, 2005 for $500,000 cash.

Activities at the Dragon Mine were suspended in October 2007 by current management at the time due to, among other things, the lack of both a comprehensive resource survey of the property and an effective mineral processing system. In 2008, we retained an internationally recognized geological consulting firm to (i) conduct a geological review and detailed evaluation of a portion of the 230-acre Dragon Mine deposit, and (ii) identify a system by which to process the potential mineral production of the mine. As of the date of the filing of this report, we have not received a final report regarding either a measurement of the mine’s resource reserve or the development of a processing system. Prior to the suspension of operations at the mine in October 2007, we focused our marketing efforts primarily on the introduction of the Dragon Mine’s clay resource to the controlled-release application and polymer filler markets.

4

We do not have "reserves" as defined in Guide 7 ("Description of Property by Issuers Engaged or To Be Engaged in Significant Mining Operations"), either proven or probable. A reserve is defined as that part of a mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination. A proven reserve is a reserve for which (a) quantity is computed from dimensions revealed in drill holes; grade and/or quality are computed from the results of detailed sampling, and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. A probable reserve is one for which quantity and grade and/or quality are computed from information similar to that used for proven (measure) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

We have hired the geological consulting firm to ultimately produce a detailed resource survey of the Dragon Mine that is intended to provide us with volume figures for certain minerals present at the mine. As part of its study, the geological consulting firm will provide us with volumes, if any, of halloysite, kaolinite and other potential minerals,. It is anticipated that a reserve figure will be provided if the resource satisfies the definition of either proven or probable. The primary markets into which we hope to sell the mineral resource are developing and, therefore, have little historical price data. This fact may prevent a reserve figure from being determined.

Our exploration and development expenses for the period ending December 31, 2007, and 2006 were $1,449,526 and $2,150,911, respectively, on the halloysite clay project.

In December 2008, we entered into a Management Agreement with Material Advisors LLC ("Manager"), a management services company, to provide services including, but not limited to, the development of the Dragon Mine and the marketing of its halloysite clay deposit.

PROCESSING

The resource at the Dragon Mine is a mixture of a number of minerals including, but not limited to, halloysite, kaolinite and alunite. During 2005 and 2006, we invested in the development of a processing plant at the site of the Dragon Mine that was designed to separate halloysite from non-halloysite material. The plant utilized an air-based processing technique. This method was ultimately deemed inadequate for the mineralogy of the Dragon Mine resource. As of the date of the filing of this Annual Report on Form 10-K, we have engaged an internationally recognized geological consulting firm to identify a more appropriate processing system for the mine's resource.

MARKETING AND SALES EFFORTS

From March 2006 until December 2008, Ronald Price was a director of Atlas Mining Company and the President and CEO of NanoClay & Technologies, Inc., our wholly owned subsidiary focused on the marketing of the Dragon Mine's clay resource. He distributed samples of Dragon Mine halloysite to a number of companies. Only one sale of $900 was made during his tenure. See "Litigation" for information regarding the NaturalNano transaction in 2004 and the restatement related to this transaction that was recognized in 2006.

GOVERNMENTAL REGULATION

DRAGON MINE

Utah requires a permit to handle explosives, and we maintain such a license under the U.S. Bureau of Alcohol Tobacco and Firearms (ATF, USC18, Chapter 40). As of December 31, 2007, we had such a license.

We have conducted, and may continue to conduct, exploration activities at the Dragon Mine. The Utah Department of Natural Resources ("UDNR") sets the guidelines for Exploration, and other mineral related activities based on provisions of the Mined Land Reclamation Act, Title 40-8, Utah Code Annotated 1953, as amended, and the General Rules and Rules of Practice and Procedures, R647-1 through R647-5.

We have received the proper permit from the UDNR. We carry a Mine Safety and Health Administration (MSHA) license (#4202383) for this property and report as required by this agency.

EMPLOYEES

As of December 31, 2007, Atlas Mining Company and its subsidiaries had sixty-four employees. None of our employees were covered by a collective bargaining agreement. We have never experienced a work stoppage and we considered our labor relations to be excellent. At the date of the filing of this Annual Report, we have five employees.

ITEM 1A. RISK FACTORS

RISK FACTORS

AN INVESTMENT IN OUR SECURITIES IS VERY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS, ALONG WITH THE OTHER MATTERS REFERRED TO IN THIS ANNUAL REPORT, BEFORE YOU DECIDE TO BUY OUR SECURITIES. IF YOU DECIDE TO BUY OUR SECURITIES, YOU SHOULD BE ABLE TO AFFORD A COMPLETE LOSS OF YOUR INVESTMENT.

As of the date of filing this report, we have not commercialized the Dragon Mine and have had to rely on cash flow generated from our now discontinued contract mining business and the sale of stock and convertible debt to fund our operations. The contract mining business was discontinued at December 31, 2008. At the current time, we have obligations in excess of our liquid assets. If we are unable to fund our operations through the commercialization of the Dragon Mine, or the sale of equity and/or debt (or a combination thereof), we may have to file bankruptcy. We continue to seek additional financing though there is no assurance that we will be able to do so.

WE HAVE EXPERIENCED CONTINUED, ANNUAL OPERATING LOSSES SINCE SEPTEMBER 1997.

We have experienced annual operating losses since our reactivation in September 1997. As of December 31, 2007, we had an accumulated deficit of $(14,589,101). We cannot assure that our proposed projects and services, if fully developed, can be successfully marketed or that we will ever achieve significant revenues or profit margins.

WE HAVE RECORDED MINIMAL INCOME FOR OUR EXPLORATION/DEVELOPMENT ACTIVITIES, AND MAY DO SO IN THE FUTURE.

Through December 31, 2007, and as of the filing date of this 10-K, the Dragon Mine had produced minimal income from mining activities. Additionally, we as a Company had not yet generated any operating profits. As of December 31, 2007, and as of the filing date of this 10-K, it was not clear that we will be able to commercially develop the Dragon Mine. If we do not, our ability to continue our business operations may be jeopardized.

DISCONTINUATION OF CONTRACT MINING BUSINESS

As of December 31, 2007, our only source of revenues from operations was the contract mining business. The contract mining business was closed on December 31, 2008 and is not expected to be restarted.

COMMERCIALIZATION OF DRAGON MINE

Activities at the Dragon Mine, located in the state of Utah, were suspended in October 2007 when current management at the time determined that the lack of both a detailed resource analysis and an adequate mineral processing system would prevent a successful commercialization of the mine. In 2008, we engaged the services of an internationally recognized geological consulting firm to both conduct a detailed assessment of the Dragon Mine and develop an adequate processing system. At the time of the completion of this report, the work of the consulting firm was still ongoing. If the resource survey does not confirm the presence of a commercially viable mineral source at the Dragon Mine or an adequate processing system cannot be developed, our ability to achieve commercial success would be materially impaired.

THERE IS NO ASSURANCE THAT THE DRAGON MINE HAS COMMERCIALLY VIABLE DEPOSITS OR "RESERVE".

We cannot provide any assurances that a commercially viable deposit exists at the Dragon Mine. The determination of the existence of a viable deposit will depend on appropriate and sufficient exploration work and the evaluation of legal, economic, and environmental factors. If we fail to find a commercially viable deposit at the Dragon Mine, the prospects of our commercial success will be materially impaired.

WE HAVE NOT PROCESSED COMMERCIAL QUANTITIES OF HALLOYSITE CLAY AND DO NOT HAVE A METHOD TO PROCESS HALLOYSITE CLAY AND HAVE NOT IDENTIFIED A FACILITY THAT COULD PROCESS HALLOYSITE CLAY

The halloysite clay at the Dragon Mine is mixed with many other minerals including iron. Separation of the halloysite from the other minerals requires special processing. As of December 31, 2007, we had not identified a commercially proven processing method or identified a processing facility. During 2008, we commissioned a study which is to include among its findings suggested methods of processing and potential processing facilities. At the time of the filing of this report, the work regarding the study is ongoing.

During 2007, we focused our efforts primarily on marketing the Dragon Mine's halloysite clay to the controlled-release application and polymer markets. We had to cease these marketing efforts beginning in late 2007 when we realized that we lacked the necessary resource survey and processing system required by customers to purchase our clay. These marketing efforts remained suspended during 2008. We plan to resume marketing the clay in first half of 2009 as we expect to receive a completed resource survey and processing scheme by then. Without either we will not be able to successfully market our resource.

During 2008, we were occupied with (i) the investigation of the special committee of the Board of Directors referred to elsewhere herein, (ii) the restatement of previously filed reports with the SEC, (iii) the preparation of delinquent reports, (iv) dealing with litigation including class action litigation and insurance litigation, and (v) dealing with management issues. As a result we did little or no marketing and generated no sales and no revenues.

WE ARE SUBJECT TO A SECURITIES LAW CLASS ACTION LAWSUIT SEEKING DAMAGES WE MAY NOT BE ABLE TO PAY

We and others have been named defendants in a securities law class action. The First Amended Complaint ("Complaint") in that action alleges that we damaged purchasers by making material misstatements in publicly disseminated press releases and Securities and Exchange Commission filings regarding the extent of the halloysite deposit on Company property, the availability and quality of halloysite for sale, and claimed sales of halloysite. The Complaint also alleges that we improperly manipulated reported earnings with respect to purported halloysite sales and misrepresentations by the individual defendants as to our financial statements. The plaintiffs seek damages under Section 10(b) of the Securities and Exchange Act and Rule 10b-5 thereunder and for violations of Section 20(a) of the Exchange Act. While we intend to vigorously defend this action, it should be recognized that the plaintiffs claim for damages far exceeds the amount of D&O insurance that the insurers claim is available. If the lawsuit is adversely determined and damages exceed the amount of insurance available, we may be unable to pay and could be insolvent.

WE MAY NEED ADDITIONAL FINANCING TO FULLY IMPLEMENT OUR BUSINESS PLAN, AND IF WE FAIL TO OBTAIN ADDITIONAL FUNDING WE MAY NOT BE ABLE TO CONTINUE OUR OPERATIONS.

As of the date of the filing of this report, we will need to raise additional capital to establish commercially viable operations at the Dragon Mine and for other uses. We cannot assure you that we will be able to raise additional

financing, including debt or equity financing, as needed, or, if available, on terms favorable to us. Furthermore, debt financing, if available, will require payment of interest and may involve restrictive covenants that could impose limitations on our operating flexibility. Our failure to successfully obtain additional future funding may jeopardize our ability to continue our business and operations.

WE MAY NOT BE ABLE TO IMPLEMENT OR MAINTAIN FINANCIAL AND MANAGEMENT SYSTEMS.

As of December 31, 2007, and as of the filing date of this 10-K, we have failed to implement and maintain financial and management information systems, controls and procedures. If, in the future, we fail to implement and maintain financial and management information systems, controls and procedures, add internal capacity, facilities and third-party sourcing arrangements or attract, train, retain, motivate and manage effectively our employees, it could have a material adverse effect on our business, financial condition and results of operations.

THERE IS COMPREHENSIVE FEDERAL, STATE AND LOCAL REGULATION OF THE EXPLORATION INDUSTRY THAT COULD HAVE A NEGATIVE IMPACT OUR MINING OPERATIONS.

Exploration operations are subject to federal, state and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Exploration operations are also subject to federal, state and local laws and regulations which seek to maintain health and safety standards by regulating the design and use of exploration methods and equipment. We require various permits from government bodies for exploration operations to be conducted. We cannot assure you that such permits will be received. No assurance can be given that environmental standards imposed by federal, state or local authorities will not be changed or that any such changes would not have material adverse effects on our activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on our financial position. Additionally, we may be subject to liability for pollution or other environmental damages that we may elect not to insure against due to prohibitive premium costs and other reasons. Management is aware of the necessity of obtaining proper permits prior to conducting any exploration activity.

APPLICABILITY OF "PENNY STOCK RULES" TO BROKER-DEALER SALES OF OUR COMMON STOCK COULD HAVE A NEGATIVE EFFECT ON THE LIQUIDITY AND MARKET PRICE OF OUR COMMON STOCK.

Our common stock is listed on the pink sheets. It is not quoted on any exchange or on the NASDAQ, and no other exemptions currently apply. Therefore, the SEC "penny stock" rules govern the trading in our common stock. Before a broker-dealer can sell a penny stock, SEC rules require the firm to first approve the customer for the transaction and receive from the customer a written agreement to the transaction. The brokerage firm must furnish the customer a document describing the risks of investing in penny stocks. The brokerage firm must tell the customer the current market quotation, if any, for the penny stock and the compensation the brokerage firm and its broker will receive for the trade. Finally, the brokerage firm must send monthly account statements showing the market value of each penny stock held in the customer's account. Generally, brokers subject to the "penny stock" rules when effecting transactions in our securities may be less willing to comply with the "penny stock rules." This may make it more difficult for investors to dispose of our common stock.

SPECIAL COMMITTEE INVESTIGATION

An investigation conducted by a special committee of our board of directors identified a number of violations of securities laws and regulations. Legal and regulatory actions arising from these violations may have substantial negative consequences for us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

PRINCIPAL OFFICE

As of December 31, 2007, we rented office space at 1221 West Yellowstone Avenue, Osburn, Idaho 83849. The property consisted of two buildings, one used as an office (four offices, two stories) and one post frame building used as a shop. As of the date of the filing of this report, the principal corporate office was located at the offices of Material Advisors, LLC , 110 Greene Street, Suite 1101, New York, New York, 10012.

MINING PROPERTIES

We have assets of real property, mineral leases and options. The following section describes our right, title, or claim to our properties and each property's location. This section also discusses our present plans for exploration of the properties.

SHOSHONE COUNTY, IDAHO

Exploration

We own approximately 900 acres of fee simple property and patented mining claims, and 260 acres of mineral rights and unpatented claims, located in the Coeur d'Alene mining district in Shoshone County, Idaho, commonly referred to as the Silver Valley of North Idaho. Our properties in Shoshone County are divided into five separate tracts. These sections are named for the mines located in that specific section. The section location and estimated acreage are as follows:

Section of the Coeur d'Alene Mining District	Estimated Acres
Atlas Mine	540 acres fee simple and patented
	180 unpatented
Sierra Trapper Creek	80 acres patented
Aulback, Section 6 & 7	100 acres patented
Sierra Silver, Woodland Park & Nine Mile	60 acres patented
	80 acres mineral rights
L & N Claims	108 acres patented
Park Copper & Gold	99 acres patented

We have no information whether the properties can be commercially exploited and no information as to the amount or quality of the minerals on the properties. As of December 31, 2007 and as of the date of the filing of this 10-K, we have no plans to exploit any of the mining properties.

JUAB COUNTY, UTAH

Dragon Mine

The Dragon Mine property, located in Juab County, Utah near the City of Eureka (Tintic Mining District), has been principally exploited for halloysite clay. The property consists of 38 patented mining claims, approximately 230 acres, located in the following sections: T10S, R2W, sections 29, 30, 31, and T10S, R3W, Section 36, all relative to the Salt Lake Meridian. We leased the property in 2001 until August 18, 2005 when we purchased the property for $500,000 in cash.

From 1950 to 1977, the Dragon Mine was operated by Filtrol Corporation. To the best of our knowledge, the mineral mined at the property was used primarily as an input of a petroleum-cracking product. The property was idle from 1977 until 2001 when we entered into a lease on it.

Previous owners' records indicate that over 1.35 million tons of clay mineral was mined at the property between 1950 and 1977. Those records also estimate approximately 300,000 tons of mineralized material remain on the property.

In July 2001, the Company began leasing the Dragon Mine from Conjecture Silver Mines, Inc. of Spokane, Washington. The Company initially paid 400,000 shares of common stock, valued at $100,000, for a one-year lease. Under the terms of the lease agreement, the Company had the right to renew the lease annually in exchange for 100,000 additional shares of our common stock or the option to purchase the property for $500,000. The Company issued 100,000 shares of stock for each year of the lease for the years 2002 – 2005 and exercised the right to purchase the mine on August 18, 2005 for $500,000 cash.

At the Dragon Mine, the following minerals, among others, have been identified: halloysite, kaolinite, alunite, and iron.

The property is located approximately two miles southwest of Eureka, Utah and can be accessed via state highway and county road. The Union Pacific Railroad has a spur approximately two miles from the property. Electrical power was approximately 1.5 miles from the site and there was no evidence of water except in the shaft.

During 2005 and 2006, we invested in the development of a processing plant at the site of the Dragon Mine that was designed to separate halloysite from non-halloysite material. The plant utilized an air-based processing technique, which was determined inadequate for the intended purpose.

All activity at the mine was suspended in October 2007 when current management at the time determined that the lack of both a detailed resource analysis and an adequate mineral processing system would prevent a successful commercialization of the mine.

In 2008, we engaged the services of an internationally recognized geological consulting firm to both conduct a detailed assessment of the Dragon Mine and identify an adequate processing system. At the time of the filing of this report, the work of the consulting firm was still ongoing.

ITEM 3. LEGAL PROCEEDINGS

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

NaturalNano

NaturalNano, Inc. ("NaturalNano") has notified us that it believes we are in breach of an agreement entered with NaturalNano in 2004, which included the following:

1. Our making available to NaturalNano a portion of our supply of unprocessed clay at the Dragon Mine, and;

2. A commitment by NaturalNano to process the clay at its expense, including an agreement by NaturalNano to provide, at its expenses, technical, financial and operating support to provide a particle separation and sizing process at the Dragon Mine site.

As consideration for the agreement, NaturalNano has paid us $250,000 and we issued 750,000 warrants to NaturalNano with an exercise price of $0.35.

NaturalNano has made a claim against us seeking to recover the $250,000 it believes it is due as part of the 2004 transaction. We have made a counterclaim for monies received by NaturalNano from the sale of Atlas warrants issued to NaturalNano. As of the date of the filing of this report, NaturalNano has not filed a lawsuit. If a lawsuit were to be filed by NaturalNano, we would vigorously contest such a lawsuit.

Securities Litigation

We, certain of our directors and former officers and employees, our prior auditor, Chisolm, Bierwolf & Nilson, LLC, and Nano Clay and Technologies, Inc., our defunct, wholly owned subsidiary, are defendants in a class action filed on October 11, 2007 on behalf of purchasers of our publicly traded common stock during the period January 19, 2005 through October 8, 2007. The First Amended Complaint ("Complaint") alleges that we damaged purchasers by making material misstatements in publicly disseminated press releases and Securities and Exchange Commission filings regarding the extent of the halloysite deposit on Company property, the availability and quality of halloysite for sale, and claimed sales of halloysite. The Complaint also alleges that we improperly manipulated reported earnings with respect to purported halloysite sales and misrepresentations by the individual defendants as to our financial statements. The plaintiffs seek remedies under Section 10(b) of the Securities and Exchange Act and Rule 10b-5 thereunder and for violations of Section 20(a) of the Exchange Act. Our former officers and employees have requested, with respect to this action, payment of their attorneys' fees and indemnification. Lead counsel in this case has been selected. Management has indicated that they intend to vigorously defend this action.

On July 2, 2009, we entered into a Settlement Agreement ("Class Action Settlement Agreement") with the lead plaintiffs in the class action In Re Atlas Mining Company Securities Litigation pending in the United States District Court for the District of Idaho, Civil Action No. 07-428-N-EJL(D. Idaho).

Under the terms of the settlement agreement, we will pay plaintiffs $1,250,000 (which includes fees to plaintiff's counsel), to be funded by the proceeds of an insurance policy, in exchange for release of all claims against Atlas, NanoClay & Technologies Inc., and the individual defendants William T. Jacobson, Robert Dumont, Ronald Price and Barbara Suveg. We will also fund up to $75,000 to fund expenses in connection with notification to class members. The settlement agreement is the agreement contemplated by the memorandum of understanding entered into by us and the lead plaintiffs dated May 1, 2009 described in the 8-K filed by the Company on May 4, 2009 ("the MOU") and the terms of it are consistent with such MOU.

Related to the Class Action Settlement, effective July 8, 2009, we entered into a Settlement Agreement and Release with Navigators, RSUI Indemnity Company and RSUI Group, Alexander, Morford & Woo, Inc., and the individual defendants listed above in settlement of the insurance litigation Atlas Mining Co. v. Navigators Insurance Co. et al., No. 1:08-cv-00359-EJL (D. Idaho) and Navigators Insurance Co. v. Atlas Mining Co., et. al., Case No. 2:08-cv-00216-EJL (D.Idaho). Pursuant to this agreement (i) Navigators will deliver $1,250,000 into a court registry, which will then be used upon final court approval of the Class Action Settlement to fund the $1,250,000 payment to class action plaintiffs, (ii) Navigators will deliver $750,000 to the Company for defense and investigative costs in connection with the Class Action and related matters, which Atlas will use in part to pay the individual defendants their costs in the class action and (iii) all claims under the insurance litigation will be released upon final court approval of the Class Action Settlement.

Also, related to the class action settlement, we have entered into a settlement agreement with Robert Dumont, a former President, CEO and director of Atlas, mutually releasing all claims related to Dumont's employment by us in consideration of our payment to Dumont of up to $258,000 for Dumont's attorneys' fees and expenses related to the class action (to be funded from the insurance proceeds described above), insurance litigation and other matters which we will fund with monies it receives from Navigators in connection with the insurance litigation settlement described above.

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

None.

PART II

ITEM 5. MARKET PRICE FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDERS MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Prices for Our Common Stock

Through mid December 2007, our common stock was quoted on the National Association of Securities Dealers, Inc. Electronic Bulletin Board (the "OTC Bulletin Board"). After that date, our common stock was quoted on the pink sheets under the symbol "ALMI." The following quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not represent actual transactions. The source of the year 2006 information was found at http://www.stockhouse.com and the year 2007 information was found at http://www.pinksheets.com.

	Year 2007		Year 2006	
	High	Low	High	Low
First Quarter	$2.08	$1.54	$1.49	$0.90
Second Quarter	$2.98	$1.81	$1.94	$1.37
Third Quarter	$2.92	$1.65	$2.44	$1.71
Fourth Quarter	$1.70	$0.53	$1.98	$1.33

Record Holders

As of December 31, 2007, there were approximately 1,565 holders of record of our common stock. This number does not include an indeterminate number of shareholders whose shares are held by brokers in street name.

Dividends

Since we became a reporting company in 1999, we have never declared or paid any cash dividend on our common stock. We are not subject to any restrictions or limitations relating to the declaration or payment of dividends other than those imposed by state corporate laws applicable to corporations generally.

Equity Compensation Plans

Our Board of Directors adopted three equity compensation plans: (1) the Non-qualified Stock Option Plan of Atlas Mining Company, (2) the Incentive Stock Option Plan of Atlas Mining Company, and (3) the Consultant Stock Plan. The Non-qualified Stock Option and Incentive Stock Option plans were adopted in 1998. The Non-qualified Stock Option Plan expired in January 2007 and the Incentive Stock Option Plan is set to expire in November 2008. The Consultant Stock Plan was adopted in 2002 and is set to expire in August 2012.

The Non-qualified Stock Option Plan allowed us to grant options to purchase up to 10% of the then (at the time of grant) outstanding shares of common stock. The price per share for each option granted was to be set by the Administrative Committee.

As of December 31, 2007, we had only two grants of options under the Non-qualified Stock Option Plan oustanding. One was a grant of options to William Jacobson in 2004 to purchase 3,500,000 shares at $0.18 per share. During 2007, Jacobson exercised 1,084,756 of these options. The other grant was to Ronald Price in 2006 of options to purchase 1,000,000 shares at prices related to market prices at the time of vesting, which resulted in exercise price from $0.54 to $2.32 per share. These options vested over the terms of their employment contracts and all unexercised options were terminated per the resignations of Jacobson and Price in June 2008 and December 2008,

respectively.

The Incentive Stock Option Plan allowed us to grant options to purchase up to a total of 10% of the then (at the time of grant) outstanding shares of common stock. Options issued under the Incentive Stock Option Plan must have had a price per share at least equal to the fair market value of our common stock on the date of the grant. As of December 31, 2007, no options were outstanding under the Incentive Stock Option Plan.

The Consultant Stock Plan allowed us to grant options to purchase up to 5,000,000 shares of our Company's common stock. The Company filed form S-8 in August 2002 authorizing the issuance of 5,000,000 shares. The exercise price of the options issued under this plan are set at 85% of the market price of the Company's common stock on the date of the grant. 16,646,647 options were granted under the plan. As of December 31, 2007, no unexercised options were outstanding under the Consultant Stock Plan.

In 2007, options and stock awards were granted to Robert Dumont and Robert Gaensbauer and options were granted to Barbara Suveg. The grants and the awards were made in connection with employment agreements. The grants were not made under the Non-qualified Stock Option Plan or the Incentive Stock Option Plan and are considered individual compensation arrangement under SEC rules. Messrs. Dumont and Gaensbauer and Ms. Suveg voluntarily terminated employment before the end of 2007 and before any options were exercised. Our position is that such voluntary resignations breached the employment agreements and terminated the employee's rights to options. The options and stock awards granted to Messrs. Dumont and Gaensbauer and the options granted to Ms. Suveg are not included in the table below; however, the Company was required to pay the stock award to its former officers and employees. As of December 31, 2007, we recorded $280,000 in stock award payable.

Equity Compensation Plan Information
As of December 31, 2007

		Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders		- 0 -	- 0 -	N/A
Equity compensation plans	Incentive Stock Option Plan	- 0 -	- 0 -	(1)
not approved by security holders	Stock Option Plan	2,688,577	$ 0.66	(1)
Total		2,688,577	$ 0.66	

(1) The Incentive Stock Option Plan and the Non-qualified Stock Option Plan do not set forth a maximum number of shares subject to the plans. Each of the plans has the following provision: "The aggregate number of shares of our common stock which may be issued upon the exercise of [options] granted under this Plan and any other stock option

plan adopted by us shall not exceed ten percent (10%) of the then issued and outstanding shares of our common stock."

RECENT SALES OF UNREGISTERED SECURITIES

In 2007, we sold stock in several transactions 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. With the exception of the sales of 1,481,482 made on January 9, 2007 and the sales made on July 11, 2007 and July 26, 2007, current management has not verified that the purchasers were accredited investors or whether the conditions of the 4(2) exemption were satisfied.

On January 3, 2007, we issued 40,000 shares of common stock to two investors for $20,000 for the redemption of outstanding warrants.

On January 9, 2007, we issued 1,481,482 shares of common stock for $2,000,001 for exercise of a subscription agreement.

Also on January 9, 2007, we issued 230,000 shares of common stock for $115,000 for the redemption of outstanding warrants.

On January 12, 2007, we issued 3,430 shares of common stock for $858 for the redemption of an outstanding warrant.

On January 29, 2007, we issued 50,000 shares of common stock for $35,000 for the redemption of an outstanding warrant.

On April 9, 2007, we issued 4,592 shares of common stock for $8,633 per an agreement.

On April 27, 2007, we issued 1,000 shares of common stock in exchange for $2,000 worth of stock in the minority interest.

On July 11, 2007, we issued 833,330 shares of common stock for $149,999 for the exercise of stock options.

On July 26, 2007, we issued 251,426 shares of common stock for $45,257 for the exercise of stock options.

ITEMSELECTED FINANCIAL DATA
6.

Please refer to Item 15 – Exhibits, Financial Statement Schedules and Reports on Form 8-K to view the audited financial statements at December 31, 2007 and 2006.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

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

Historically, our primary source of revenue was generated by contract mining operations. However, at December 31, 2008, we discontinued our contract mining efforts due to economic conditions and the desire to concentrate our efforts on the commercialization of the halloysite clay deposit at the Dragon Mine.

Property Exploration

In August 2001, we acquired the Dragon Mine in Juab, Utah and began our clay exploration. Our exploration and development expenses for the year ending December 31, 2007 and 2006 were $1,449,526 and $2,150,911, respectively, on the halloysite clay project.

Activity at the mine was suspended in October 2007 when management, at that time, determined that the lack of both a detailed resource analysis and an adequate mineral processing system would prevent a successful commercialization of the mine. In 2008, we engaged the services of an internationally recognized geological consulting firm both to conduct a detailed assessment of the Dragon Mine and develop an adequate processing system. At the time of the completion of this report, the work of the consulting firm was still ongoing.

Management intends to continue to focus its efforts on the potential commercialization of the Dragon Mine. We do not intend to seek out and acquire other properties.

CRITICAL ACCOUNTING POLICIES

The following accounting policies have been identified by management as policies critical to our financial reporting:

Accounts Receivable
Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Specific reserves are estimated by management based on certain assumptions and variables, including the customer's financial condition, age of the customer's receivables, and changes in payment histories. As of December 31, 2007 and 2006, no allowance for doubtful accounts was considered necessary. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Impairment of Assets
In August 2001, Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") established a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations. SFAS No. 144 requires that these long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations.

Mining Exploration and Development Costs
Land and mining property acquisitions are carried at cost. We expense prospecting and mining exploration costs. If, at a point in the future, 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. We may never own a property with proven and probable reserves.

Provision for Income Taxes
Income taxes are calculated based upon the liability method of accounting in accordance with the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). In accordance with SFAS No. 109, 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 we have met the "more likely than not" standard imposed by SFAS No. 109 to allow for recognition of such an asset.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles 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 our estimates. Actual results could differ from those estimates.

Fair Value of Financial Instruments
The recorded amounts of financial instruments, including cash equivalents, available for sale securities, receivables, investments, accounts payable and accrued expenses, and long-term debt, approximate their market values as of December 31, 2007 and 2006. We have no investments in derivative financial instruments.

Revenue Recognition
The Company recognizes revenue in the period that the related services are performed and collectability is reasonably assured. For the years ended December 31, 2007 and 2006, the Company derived substantially all of its revenues from leasing equipment and employees for mine development, site evaluation, and preparatory work. These service contracts generally took the form of fixed-price contracts. Under fixed-price contracts, revenue is recognized as services are performed, with performance generally assessed using output measures, such feet excavated. Changes in the scope of work generally result in a renegotiation of contract pricing terms or a contract amendment. Renegotiated amounts are not included in net revenues until earned and realization is assured. Historically, costs expensed as incurred. All out-of-pocket costs are included in expenses.
Revenue for mined halloysite clay, if any, will be recognized upon shipment and customer acceptance once a contract with a fixed and determinable fee has been established and collection is reasonably assured or the resulting receivable is deemed probable.

Stock Options and Warrants
We have stock option plans that provide for stock-based employee compensation, including the granting of stock options to certain key employees. The plans are more fully described in Note 7. Prior to January 1, 2006, we applied APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations in accounting for awards made under our stock-based compensation plans. Under this method, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

During the periods presented in the accompanying financial statements, we have adopted the provisions of SFAS No. 123R using the modified-prospective transition method and the disclosures that follow are based on applying SFAS No. 123R. Under this transition method, compensation expense recognized during the year ended December 31, 2007 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2007, and (b) compensation expense for all share-based awards granted on or after January 1, 2007. Accordingly, compensation expense of $666,002 and $377,076 has been recognized for vesting of options to employees and directors in the accompanying statements of operations for the period ended December 31, 2007 and 2006, respectively.

18

RECENT ACCOUNTING PRONOUNCEMENTS

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

EITF 04-02, "Whether Mineral Rights are Tangible or Intangible Assets"
We have not yet realized any significant revenues from its Dragon mine operation. Mineral property exploration costs are expensed as incurred. Mineral property acquisition costs are initially capitalized when incurred using the guidance in EITF 04-02 "Whether Mineral Rights Are Tangible or Intangible Assets". We assess the carrying costs for impairment under SFAS 144, "Accounting for Impairment or Disposal of Long Lived Assets" at each fiscal quarter end. When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, the costs then incurred to develop such property, are capitalized. Such costs will be amortized using the units-of-production method over the estimated life of the probable reserve. If mineral properties are subsequently abandoned or impaired, any capitalized costs will be charged to operations.
To date, we have not established any proven or probable reserves on its mineral properties.

EITF 04-03, "Mining Assets: Impairment and Business Combinations"
We have one mineral property that we are attempting to commercialize. As required by EITF 04-03 "Mining Assets: Impairment and Business Combinations," when considering impairment for mining property, we are to consider the Value Beyond Proven and Probable (VPBB) in evaluating the carrying value of mineral assets. We have not determined if this pronouncement has current application to us, but will be implemented in our future financial reporting when applicable.

SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles"
In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." Adoption of this statement is not expected to have a material effect on our future reported financial position or results of operations.

SFAS No. 161, "Disclosure about Derivative Instruments and Hedging Activities – an amendment to FASB No. 133"
In March 2008, the FASB issued SFAS No. 161, "Disclosure about Derivative Instruments and Hedging Activities – an amendment to FASB Statement No. 133." The use and complexity of derivative instruments and hedging activities have increased significantly over the past several years. Constituents have expressed concerns that the existing disclosure requirements in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," do not provide adequate information about how derivative and hedging activities affect an entity's financial position, financial performance, and cash flows. Accordingly, this Statement requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We have not determined the effect of the application of the disclosure requirements of SFAS No. 161 at December 31, 2007.

SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements Liabilities – an Amendment of ARB No. 51"
In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements Liabilities –an Amendment of ARB No. 51". This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008.

Earlier adoption is prohibited. We have determined that adoption of this will occur during our fiscal year ending December 31, 2009. The Company will re-class minority interest from a liability to a component of shareholders' equity.

SFAS No 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115"

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115." This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, "Fair Value Measurements". We have not determined if this pronouncement has current application to us, but will be implemented in our future financial reporting when applicable.

SFAS No. 157, "Fair Value Measurements"

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". The objective of SFAS No.157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS No. 157 were to be effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material effect on our future reported financial position or results of operations. In February 2008, Staff Position No. 157-2 "Effective Date of FASB Statement No. 157", delayed the effective date of SFAS No. 157. The provisions of FSP FAS 157 are effective for our 2009 fiscal year. We have not determined if this pronouncement has current application to us, but will be implemented in our future financial reporting when applicable.

FASB Interpretation No. 48, "Accounting to Uncertainty in Income Taxes and An Interpretation of FASB Statement No. 199"

In July 2006, the FASB issued Interpretation No. 48 ("FIN 48"), "Accounting to Uncertainty in Income Taxes and An Interpretation of FASB Statement No.109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB standard also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for our first quarter ending March 31, 2008. The adoption of FIN 48 will not have a material impact on our financial statements.

OVERVIEW OF OUR LOSSES

During the years ended December 31, 2007 and 2006, 100% of revenues realized were as a result of our contract mining business. Our results for the last two years reflect an upswing in underground mining services provided to our customers. During 2007, we had revenue growth of 104% over the revenues in year 2006. In addition, net losses in 2007 were 21% less than the losses realized in 2006.

RESULTS OF OPERATIONS

Revenues for the year ended December 31, 2007 were $7,731,081 and $3,800,104 for the same period ending December 31, 2006, an increase of $3,930,977. The 103% increase in revenue was due to an increase in the number of underground mining contracts worked by the Company in 2007 versus 2006. During 2007, four underground mining contracts were worked by the Company versus two underground mining contracts in 2006.

Gross profit for the year ended December 31, 2007 was $3,018,419 compared to $1,188,285 for the same period ended December 31, 2006, an increase of $1,830,134. This 154% increase was a direct result of the increased number of mining contracts worked by the Company during 2007 versus 2006.

Total operating expenses for the year ended December 31, 2007 were $5,217,705 compared to $3,537,294 for the same period ended December 31, 2006, an increase of $1,680,411. The 47% increase in operating expense was due primarily to an increase in the number of active underground mining contracts worked by the Company during 2007 versus 2006.

Our net loss for the year ended December 31, 2007 was $1,681,716 compared to $2,110,673 for the same period ending December 31, 2006, a decrease of $428,957. The 21% decrease is due to a significant increase in Contract Mining revenues, coupled with a reduction in the cost of performing contract mining services.

LIQUIDITY AND CAPITAL RESOURCES

As of the date of filing this report, we have not commercialized the Dragon Mine and have had to rely on cash flow generated from our now discontinued contract mining business and the sale of stock and convertible debt to fund our operations. The contract mining business was discontinued at December 31, 2008. At the current time, we have obligations in excess of our liquid assets. If we are unable to fund our operations through the commercialization of the Dragon Mine, or the sale of equity and/or debt (or a combination thereof), we may have to file bankruptcy. We continue to seek additional financing, though there is no assurance that we will be able to do so.

We have experienced annual operating losses since our reactivation in September 1997. As of December 31, 2007, we had an accumulated deficit of $(14,589,101). We can provide no assurance that our proposed projects and services, even if fully developed, can be successfully marketed or that we will ever achieve significant revenues, profit margins or profitability to sustain our operations and meet our obligations.

Through December 31, 2007, our activities had been financed primarily through the sale of equity securities and borrowings, coupled with revenues from contract mining. For the years ended December 31, 2007 and 2006, contract mining accounted for 100% of revenue. Our current asset and debt structure is explained below.

Our total assets as of December 31, 2007 were $6,271,643 compared to $4,109,451 as of December 31, 2006, or an increase of $2,162,192. For the year ended December 31, 2007, we increased our current assets by $1,286,019, and increased our fixed assets by $1,187,006 through acquisitions of additional mining equipment and vehicles.

Total liabilities were $1,702,224 as of December 31, 2007, compared to $881,858 as of December 31, 2006. We acquired mining equipment during the year ended December 31, 2007 to facilitate increased contract mining activities. As a result, the Company had notes payable of $121,052 and $162,623 at December 31, 2007 and December 31, 2006, respectively, and leases payable of $497,420 and $232,262 at December 31, 2007 and December 31, 2006, respectively.

Current liabilities including accounts payable and accrued expenses due as of December 31, 2007 and 2006 were $803,752 and $486,973, respectively, and are the result of daily operations and accrued taxes. We also carry a liability of $50,415 and $52,415 to the minority interest in a subsidiary and stock awards payable of $280,000 and $0 at December 31, 2007 and 2006, respectively.

Our principal sources of cash flow during the year 2007 came, in part, from our contract mining activities which provided an average of $643,802 per month for the year ended December 31, 2007 and averaged $316,675 per month for the same period in 2006. We relied on our credit facilities and public or private sales of equity for additional sources of cash during 2007.

Cash flow from financing activities for the year ended December 31, 2007 was $2,029,860 compared to $1,352,446 for the same period in 2006, a difference of $677,414. The major factor for the difference was receipt of proceeds from issuance of common stock in January 2007.

The Company used $1,170,949 in investing activities for the year ended December 31, 2007 compared to using $1,084,890 in the same period in 2006, a difference of $86,059. This was attributed to purchases of more equipment during the year 2007 compared to 2006.

Cash flows provided by (used by) operating activities for the year ended December 31, 2007 was $134,608 compared to ($2,266,384) for the same period in 2006, a difference of $2,400,922. This was attributable to increases in accounts payable and accrued expenses, stock award payable and other non-cash transactions.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements between us 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.

RESTATEMENT OF PRIOR FINANCIAL INFORMATION AND RESULTS OF THE INVESTIGATION

Background

On October 9, 2007, we filed a report on Form 8-K with the Securities and Exchange Commission for the purpose of making certain disclosures and attaching a press release. The 8-K and the press release indicated that our chief executive officer and chief financial officer determined that it would be necessary to restate our audited consolidated financial statements and other financial information. The 8-K stated, “the determination to restate resulted from recent discussions with a customer and the subsequent discovery that [we] had not properly accounted for cash received in 2004 as a deposit for the sale of halloysite clay from [our] Dragon Mine. The deposit was improperly recorded as revenue for the year ended December 31, 2004.” We have restated our financial statements for the year ended December 31, 2006.

The 8-K also stated that other areas of accounting uncertainty had been identified.

On November 9, 2007, Mark Kockler was hired as Vice President and Chief Operating Officer. Later in November 2007 Robert Dumont resigned as CEO, President and Director, John Gaensbauer resigned as Executive Vice President, and Barbara Suveg resigned as Chief Financial Officer. In December 2007 Mr. Kockler resigned and William T. Jacobson, Chairman of the Board of Directors who had resigned as CEO and President in July 2007, was appointed interim CEO and President. On January 7, 2008 Jack Harvey resigned as a director. On January 11, 2008,

John Levy and Morris D. Weiss were appointed directors. At that time the Board of Directors consisted of Messrs. Jacobson, Levy, Weiss, and Ronald Price, who was president of our subsidiary, Nano Clay and Technologies, Inc.

The Special Committee

On January 11, 2008, the Board of Directors formed a Special Committee (the Committee initially consisted of Mr. John F. Levy as chair and, later, inlcuded Mr. Morris D. Weiss) and directed it to (i) review and investigate the conduct of our prior management and any issues arising therefrom and (ii) review and evaluate our business, financial condition, assets, strategy, prospects and management and recommend to the Board of Directors various alternatives to improve our performance and prospects.

On August 20, 2008, the Special Committee presented its findings and recommendations to the Board of Directors concerning the investigation of the conduct of our prior management and related issues. After consideration, the Board has accepted the findings and recommendations of the Special Committee.

The Investigative Team

The Special Committee was assisted in the investigation by outside independent legal counsel, Blank Rome LLP (“Blank Rome”), and independent accountants, Heiskell, MacGillivray & Associates retained by Blank Rome (the Special Committee and its advisors are referred to collectively as the “Investigative Team”).

Scope of the Investigation

The Investigative Team reviewed and investigated, among other things, (i) certain of our prior issuances of equity securities and issues related thereto, (ii) the treatment for financial reporting purposes of $250,000 received by us in connection with a 2004 transaction involving NaturalNano, Inc., as more fully described in Note 8, (iii) our accounting for fixed assets and long-term liabilities and (iv) certain public statements made by us regarding the Dragon Mine.

The Investigative Team’s review included a broad and extensive document review including our stock compensation plans, stock transfer records, minutes of the board meetings, press releases and public filings, accounting and banking books and records and e-mails and related attachments of our current and certain former employees, officers and directors. The Investigative Team also conducted interviews of our current and certain former officers, directors, employees and advisors who appeared to have knowledge of the issues being investigated. Three of our former officers and two of our former consultants declined to be interviewed. We placed no limitations on the investigation and cooperated with the investigation, providing requested documents and data and, where possible, making management and our employees available for interviews.

Findings of the Special Committee

The findings of the Special Committee include the following:

- During the period beginning in 2002 and ending in early 2006, approximately 30 million shares of common stock were issued in violation of the federal securities laws, including the registration provisions of Section 5 of the Securities Act of 1933. The violations involved (a) misuse of SEC Registration Form S-8, a short form registration form for compensatory issuances to certain officers, directors, employees and consultants (approximately 16 million shares were issued under Form S-8), (b) transfer of 9.9 million shares to related parties and affiliates that were purportedly sold under our Registration Statement on SEC Registration Form SB-2 and subsequent resales without compliance with the plan of distribution contained in our SB-2, and (c) grants of at least 2.8 million shares purportedly made pursuant to the exemption from registration set forth in Section 4(2) of the Securities Act. These issuances are discussed in more detail in the following three paragraphs.
- Between 2002 and 2006, we issued approximately 16 million shares of our common stock that were purportedly issued under our registration statements on Form S-8. A review of these issuances revealed that approximately 14.6 million of these shares, with an aggregate market value of approximately $3.6 million (based upon the closing sale

price per share on the apparent dates of issuance), were issued to individuals and entities that were ineligible to receive shares registered on Form S-8 because, among other reasons, these individuals or entities provided us with capital raising or stock promotion services and/or did not provide any bona fide consulting services to us. In addition, some such issuances and other issuances also may have been in excess of the number of shares we had registered on Form S-8 at the time of issuance. Many of the shares were issued in violation of the Atlas' 2002 Consultant Stock Plan. Certain shares were issued to family members of our then CEO, Mr. Jacobson, and such transactions appear to have been, among other things, director conflict of interest transactions which did not receive proper approval from the Board of Directors.

Moreover, the values given to the S-8 stock for financial reporting purposes in many cases appear to have been less than market value of the stock on the apparent dates of issuance.

- In 2003, we registered for sale on SEC Registration Form SB-2 ten million shares of common stock at a fixed price of $0.10 per share on a self-underwritten basis. Purportedly, to avoid filing a post-effective amendment to update the disclosure in the registration statement, we issued 9.9 million shares to related parties and affiliates. In 2003 and 2004, these shares were provided to third parties for resale and resales were apparently made at times when the market price was greater than $0.10. Only after such resales did we ultimately receive cash payments in the aggregate of approximately $805,000 for these shares, which is less than the $990,000 that would be expected.
- In 2003, we issued 2.8 million restricted shares for supposed services purportedly in reliance on the private placement exemption from registration set forth in Section 4(2) of the Securities Act. However, we did not determine whether the recipients satisfied a condition of the exemption (that is, that the recipients took with the intent to resell only pursuant to an effective registration statement or an exemption from registration). In some cases, we instructed our transfer agent to transfer these shares prior to the applicable holding period under Rule 144, which is an exemption from registration. 1.4 million of these shares were issued to a family member of Mr. Jacobson and this transaction appears to have been, among other things, a director conflict of interest transaction that did not receive proper authorization from the Board of Directors.
- The Special Committee also determined that we did not properly record compensation expenses associated with the vesting of certain stock options granted to our former officers.
- The Special Committee has determined that Mr. Jacobson was primarily responsible for the securities law violations set forth above.
- The Special Committee also discovered transactions between us and our wholly- or partly-owned subsidiaries or related entities, including stock issuances to those entities that violated Section 5 of the Securities Act and inter-company loans with those entities that appear to have been conflict-of-interest transactions entered into without proper corporate authorization or business purpose.
- The Special Committee has determined that the accounting treatment of the $250,000 received from NaturalNano as revenue in 2004 was incorrect. However, the Special Committee has also determined that the treatment of such funds as proposed in the October 9, 2007 press release was also incorrect. The Special Committee believes that during the two-year term of the contract the $250,000 should have been treated as a deposit and, after the expiration of the contract in 2006, the entire $250,000 should have been recognized as other income.
- The Special Committee determined that in 2004 Mr. Jacobson received options to purchase 3.5 million shares of Atlas common stock in violation of the Company’s existing stock option plans. The options had an exercise price below the market price of the common stock on the date of the grant, which violated the terms of the plan under which they were granted. The Company did not properly account for the compensation expenses related to the grant.
- The Special Committee found no evidence of accounting irregularities with respect to fixed asset ownership and long-term liabilities.
- Our internal controls over financial reporting and disclosure controls contained material weaknesses that led to inadequate and inaccurate disclosures.
- There were inaccurate statements in press releases released by us including a press release dated November 28, 2006 that contained inaccurate statements regarding the production capabilities and activities at the Dragon Mine.

Restatements

In our report on Form 8-K filed on October 9, 2007, we stated that we had concluded that its audited consolidated financial statements and other financial information at and for the fiscal years ended December 31, 2004, 2005 and 2006 could no longer be relied upon based on the accounting for the 2004 sale of halloysite clay to NaturalNano. The Special Committee determined on August 20, 2008 that the financial statements for all periods beginning in 2002 through the second quarter of 2007 are unreliable.

24

In addition to the NaturalNano matter, the Special Committee had determined that expenses recorded in 2002 through 2006 relating to the value of certain issuances of equity stock and the compensation expenses associated with the vesting of certain stock options granted to our officers were not properly recorded on the financial statements. The Special Committee determined that that during the two-year term of the NaturalNano contract, the $250,000 should have been treated as a deposit, but after the expiration of the contract in 2006, the entire $250,000 should have been recognized as other income. The financial statements for the year ended December 31, 2006 and the quarters ended March 31 and June 30, 2006 and 2007, and September 30, 2006 will be restated.

Report to the SEC
The Special Committee has reported its findings to the staff of the SEC. In February 2009, the SEC issued a formal order of investigation of facts with respect to possible violations of the securities laws by the Company, its officers, directors, and affiliates for the period of August 2002 through 2006. The Company intends to cooperate fully with the SEC investigation.

Recommendations of the Special Committee
Based on its investigation, the Special Committee provided to the Board of Directors a number of findings and recommendations that the Board accepted. The recommendations include, among other things, continuing the improvements to our corporate governance policies and procedures, adopting conflict of interest and related party transaction policies, implementing new practices regarding equity issuances, changing transfer agents and hiring new independent auditors.

Based on the recommendation of the Special Committee, we are evaluating possible claims against Mr. Jacobson and others to recover the losses incurred by us and improper profits or benefits that may have been obtained by Mr. Jacobson, his family members or others, as well as losses incurred by us while conducting the investigation and remedying the matters uncovered.

As a result of the investigation, changes that have been made include the following:

- In June 2008, Mr. Jacobson resigned as an officer and director.
- As a result of Mr. Jacobson's resignation, our Board now consists of a majority of independent directors. As of the date of this report, the board has only one non-independent director.
- In July 2008, we hired Michael Lyon as interim Chief Executive Officer until December 31, 2008 who brought more than 35 years of experience in finance, operations, law and strategic planning in a variety of businesses.
- We hired experienced securities and disclosure counsel.
- We named Morris D. Weiss as Chief Restructuring Officer. His duties include oversight and management of litigation and property dispositions, other than Dragon Mine, which we intend to operate, advising the Board as to other restructuring matters and such other matters as may be assigned to him by the Board.
- We dismissed Chisholm, Bierwolf & Nilson, LLC ("Chisholm") as independent auditors and retained PMB Helin Donovan LLP ("PMB") as independent auditors for the purposes of auditing the financial statements for the years ended December 31, 2006 and December 31, 2007, performing other audit procedures on the financial statements for the year ended December 31, 2005 and 2004 and reviewing financial statements for the first quarter 2007 and 2006, the second quarter 2007 and 2006, and third quarter 2007 and 2006.
- We appointed David A. Taft as a director.
- We entered into a Management Agreement with Material Advisors LLC, a management services company ("Manager") to 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.

- We appointed Andre Zeitoun as President and Chief Executive Officer and as a director of Company effective January 1, 2009. Mr. Zeitoun is compensated by Material Advisors LLC.

- We appointed Christopher Carney as interim Chief Financial Officer effective February 17, 2009. Mr. Carney is compensated by Material Advisors LLC.

- We have adjusted prior period balances for corrections of errors to properly reflect accounting for the valuation for stock options, related party transactions, impairment of securities available for sale and valuation of common stock issued for services.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our Consolidated Financial Statements are included herein at Item 15. Financial statement schedules are omitted as they are not applicable or the information required is included in the Consolidated Financial Statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the two years ended December 31, 2006, there were no disagreements Chisholm, Bierwolf, & Nilson LLC ("Chisholm"), the independent registered public accounting firm, whether or not resolved, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the former accountant's satisfaction, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report. Chisholm did not advise us that

1. internal controls necessary to develop reliable financial statements did not exist; or

2. information has come to its attention which made the accountant unwilling to rely on management's representations, or unwilling to be associated with the financial statements prepared by management; or

3. the scope of the audit should be expanded significantly, or information has come to its attention that it had concluded will, or if further investigated might, materially impact the fairness or reliability of a previously issued audit report or the underlying financial statements, or the financial statements issued or to be issued covering the fiscal period(s) subsequent to the date of the most recent audited financial statements (including information that might preclude the issuance of an unqualified audit report)

On August 20, 2008, the Board of Directors engaged PMB Helin Donovan LLP ("PMB") as our independent registered public accounting firm, and simultaneously dismissed Chisholm.

The engagement of PMB as our independent registered public accounting firm included auditing financial information for the years ended December 31, 2006, as well as performing audit procedures for the year ended December 31, 2007. Services engaged also include quarterly reviews of financial information beginning with the first quarter ended March 31, 2006.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange act of 1934, as amended (the "Exchange Act")) as of December 31, 2007. Based upon such evaluation, management identified material weaknesses in internal control over financial reporting which management considers an integral component of disclosure controls and procedures. Material weaknesses identified include ineffective oversight of related party transactions, revenue recognition, stock issued for services, stock issuances under option plans that were in violation of the terms of the plans, accounting for options, lack of appropriate accounting procedures and personnel, journal entry approval and procedures, and management's assessment of internal control over financial reporting. As a result of the material weaknesses identified, management concluded that Atlas Mining Company's disclosure controls and procedures were ineffective.

To mitigate internal control weaknesses the Company has replaced the management and Board of Directors under which these weaknesses occurred and, in turn, and replaced them with a management team and Board of Directors that have instituted internal control and corporate governance policies that are intended to reduce the possibility of such

breaches of controls.

To avoid the inappropriate issuances of equity identified by the Board of Directors' Special Committee, all future equity issuances will require Board approval.

(b) Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes, among other things, those policies and procedures that:

i. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

ii. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

iii. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may be inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(c) Management’s Annual Report on Internal Control Over Financial Reporting

Our management, including the chief executive officer and principal financial officer, concluded that we did not maintain appropriate internal control over financial reporting at December 31, 2007. In arriving at that conclusion, we considered the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and we performed a complete assessment as outlined in Commission Guidance Regarding Management’s Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Exchange Act ("SOX"). The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by PMB Henlin Donovan, our independent registered public accounting firm, as stated in their report, which is included herein.

In performing our assessment, we identified the risks that most likely affect reliable financial reporting and are most likely to have a material impact on the company’s financial statements, documented each business process within the risk area, determined the control points related to the business process and tested the design and effectiveness of each control. In addition to process (transactional) level controls, we evaluated entity level controls to determine if compensating controls mitigated any process level risks. Entity level controls include a broad range of non-transactional activities including account reconciliations, management review of results, the Company’s Code of Conduct and Audit Committee review of practices and results.

SEC Release 33-8809 defines “material weakness” as a deficiency, or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant’s financial statement will not be prevented or detected on a timely basis. SEC release 33829 defines “significant

deficiency" as a deficiency, or combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the registrant's financial reporting.

In summary, as a result of our first assessment of internal control over financial reporting under COSO criteria we identified a material weakness in a high risk process and a number of significant deficiencies in high to low risk processes within high risk areas of financial statement control. Despite the existence of the material weakness and the significant deficiencies, we believe that our consolidated financial statements contained in this Form 10-K filed with the SEC fairly present our financial position, results of operations and cash flows for the fiscal year ending December 31, 2007 in all material respects. In conjunction with this conclusion, our independent registered public accounting firm has tested our internal control over financial reporting evaluation process and has provided an adverse opinion on the Company's control over financial reporting audit report.

As of December 31, 2007, the following material weaknesses in our internal control over financial reporting were identified:

i. The lack segregation of duties in the period-end financial reporting process. The Company has historically had limited accounting staff and minimal operating revenue and as such, all accounting and financial reporting operations are performed by one individual. This individual is the only employee with any significant knowledge of generally accepted accounting principles and is the only individual in charge of the general ledger (including the preparation of routine and non-routine journal entries and journal entries involving accounting estimates), the preparation of account reconciliations, the selection of accounting principles, and the preparation of interim and annual financial statements (including consolidation entries and footnote disclosures) in accordance with generally accepted accounting principles. In addition, the lack of more than one person with significant knowledge of generally accepted accounting principles has resulted in ineffective oversight and monitoring of the work performed by the employee.

ii. The lack of an effective period-end financial statement closing process. There is no formal guidance or checklist of procedures to facilitate the accounting period end closing process. Also, general ledger accounting reconciliations, other than cash accounts are not formally performed or documented and, in some cases, subsidiary records supporting general ledger balances are not effectively maintained. In addition, analytical reviews of financial and operational results are not consistently performed on a formal basis or documented.

iii. The lack of adequate board oversight has provided management the opportunity to both override the controls that governed the Company's normal course business activities and execute transactions without necessary board approval.

(d) Changes in Internal Control Over Financial Reporting

As a result of implementing the assessment process over the internal control over financial reporting, we implemented various remediation measures to improve our financial reporting and disclosure controls. As this is our first report on internal control, none of the weaknesses identified below have been previously disclosed. Some of the remedial actions taken since December 31, 2007 include:

i. The institution of certain personnel changes that will result in an appropriate segregation of duties in the period-end financial reporting process.

ii. The implementation of procedures and controls governing the period-end financial statement closing process.

iii. The creation of an independent, qualified and active Board of Directors that includes a financial expert.

(e) Auditor's Assessment of Internal Control Over Financial Reporting

The Board of Directors and Stockholders
Atlas Mining Company
New York, NY

We have audited the accompanying consolidated balance sheets of Atlas Mining Company ("Atlas") as of December 31, 2007 and 2006, and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the fiscal years ended December 31, 2007 and 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assessment as of December 31, 2007:

Ø The lack segregation of duties in the period-end financial reporting process. The Company has historically had limited accounting staff and minimal operating revenue and as such, all accounting and financial reporting operations are performed by one individual. This individual is the only employee with any significant knowledge of generally accepted accounting principles and is the only individual in charge of the general ledger (including the preparation of routine and non-routine journal entries and journal entries involving accounting estimates), the preparation of account reconciliations, the selection of accounting principles, and the preparation of interim and annual financial statements (including consolidation entries and footnote disclosures) in accordance with generally accepted accounting principles. In addition, the lack of more than one person with significant knowledge of generally accepted accounting principles has resulted in ineffective oversight and monitoring of the work

performed by the employee.

- Ø The lack of an effective period-end financial statement closing process. There is no formal guidance or checklist of procedures to facilitate the accounting period end closing process. Also, general ledger accounting reconciliations, other than cash accounts are not formally performed or documented, and in some cases, subsidiary records supporting general ledger balances are not effectively maintained. In addition, analytical reviews of financial and operational results are not consistently performed on a formal basis or documented.
- Ø The lack of adequate board oversight has provided management the opportunity to both override the controls that governed the Company's normal course business activities and execute transactions without necessary board approval.

In January 2008, the Company's Board of Directors formed a Special Committee and directed it to (i) review and investigate the conduct of the Company's prior management and any issues arising therefrom and (ii) review and evaluate the Company's business, financial condition, assets, strategy, prospects and management, and recommend to the Board various alternatives to improve the Company's performance and prospects.

The Investigative Team reviewed and investigated several questionable transactions and public statements made by the company. The Team and the Special Committee determined on August 20, 2008, that the financial statements for all periods beginning in 2002 through the second quarter of 2007 could not be relied upon and hired new independent accountants to work with new management to reissue the financial statements. The financial statements for the year ended December 31, 2006 have been restated and included several material adjustments in order in bring them in compliance with GAAP.

In our opinion, management's assessment that Atlas Mining Company, Inc., did not maintain effective internal control over financial reporting as of December 31, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Atlas Mining Company, Inc., has not maintained effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

PMB Helin Donovan, LLP
Spokane, WA
July 10, 2009

ITEM 9B. OTHER INFORMATION

None.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The following were the members of the Board of Directors and/or officers at the year ended December 31, 2007:

Name	Age*	Position
William T. Jacobson	61	Chairman of the Board, Chief Executive Officer, President, Director
Jack Harvey	86	Director
Ronald Price	59	Director
Barbara Suveg	36	Interim Corporate Secretary

* Age at December 31, 2007

BACKGROUND OF OFFICERS AND DIRECTORS

WILLIAM T. JACOBSON, CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE OFFICER, PRESIDENT, DIRECTOR. Mr. Jacobson was a director, Chairman of the Board and Chief Executive Officer of Atlas Mining Company since August 1997. Mr. Jacobson reported that at December 31, 2007 he was a member of the Board of Directors for Transnational Automotive Group, Inc. (symbol: TAMG), an unrelated entity. Mr. Jacobson entered into a five year employment contract in 2004 that provided for annual salaries of $120,000, $150,000, $200,000, $225,000, $250,000 and provided for options to acquire up to 3,500,000 shares of common stock over a five year period at $0.18 per share. Mr. Jacobson resigned as CEO, President and director in June 2008.

JOHN "JACK" HARVEY, DIRECTOR. Mr. Harvey was a director of Atlas Mining Company since 1997 until he tendered his resignation on January 11, 2008.

RONALD R. PRICE, DIRECTOR. Mr. Price was a director since 2005 and president of our subsidiary, Nano Clay and Technologies, Inc. since 2006. He retired after a 20-year career at the US Naval Research Laboratory where he was engaged in research involving halloysite clay in entrapment and time release processes. In March 2006, Mr. Price entered into a three-year employment agreement, with salaries of $150,000, $175,000, and $200,000. In 2006, he was granted options to purchase 1,000,000 shares of common stock. The first 500,000 shares were exercisable at a range of $1.48 to $1.51 per share and the remaining 500,000 shares are exercisable at 85% of the common stock price on given anniversary dates at range of $0.54 to $2.32. The options vested 25% on July 14, 2006, January 14, 2007, July 14, 2007, and January 14, 2008. Price resigned as President of Nano Clay and Technologies, Inc. and as a director of Atlas Mining Company in December 2008.

BARBARA SUVEG, INTERIM SECRETARY. Ms. Suveg's employment began in September 2006 as an accountant. On August 8, 2007, she signed a three-year employment agreement to serve as our Chief Financial Officer at $168,000 per year. The employment agreement provided for the grant of options to purchase 250,000 shares of common stock at $2.41 per share of which 100,000 vested immediately. From August 8, 2007 until her resignation on November 13, 2007, she served as our Chief Financial Officer. She rejoined us on November 30, 2007 as our Interim Corporate Secretary and corporate accountant. Her tenure as our Interim Corporate Secretary ended in January 2009. Ms. Suveg's employment with us as corporate accountant ended in March 2009. Ms. Suveg continues to provide accounting consulting services to us.

As of December 31, 2007, we did not have nominating, auditing, or compensation committees and there were no procedures by which shareholders recommended nominees to the Board of Directors.

As of December 31, 2007, we did not have an audit committee and the board did not function as an audit committee. We did not have person qualified to be an audit committee financial expert. We reported in earlier 10-Ks that the Board believed that it could not pay enough to attract a person with such qualifications to serve on the board. We are not aware of any other statements or determination by the Board on such matter.

SIGNIFICANT EMPLOYEE

Ronald Short, 63, is the Operations Manager of our Contract Mining Division. Prior to joining the Company in 2003, Mr. Short managed several gold and silver mining properties for other mining companies. Mr. Short does not work under an employment agreement. Mr. Short's employment with the Company ended January 31, 2009.

COMPLIANCE WITH SECTION 16(a) OF EXCHANGE ACT

Section 16(a) of the Securities Exchange Act requires our directors, executive officers and persons who own more than 10% of our common stock to file reports of ownership and changes in ownership of our common stock with the Securities and Exchange Commission. Directors, executive officers and persons who own more than 10% of our common stock are required by Securities and Exchange Commission regulations to furnish us copies of all Section 16(a) forms they file.

To our knowledge, based solely upon review of the copies of such reports received or written representations from the reporting persons, we believe that during our 2007 fiscal year our directors, executive officers and persons who own more than 10% of our common stock complied with all Section 16(a) filing requirements with the exception of the following: None of the persons who were directors, or Kurt Hoffman who was an officer and director for part of 2007, or IBS Capital LLC and the IBS Turnaround Fund (QP) (A Limited Partnership), filed a Form 5 within 45 days of the end of fiscal 2007 or provided us with a statement that no such filing was required.

ITEM 11. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION AND HIGHLY PAID EMPLOYEES

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compen-sation ($)	Non-Qual-ified
William Jacobson	2007	$177,083	$- 0 -	$- 0 -	$- 0 -	$- 0 -	$- 0 -
President, CEO (1)	2006	120,000	- 0 -	30,000	- 0 -	- 0 -	- 0 -
Robert L. Dumont	2007	124,538	- 0 -	685,000	(0)	- 0 -	- 0 -
President, CEO (2) (3)							
Ronald Price	2007	167,708	51,975	- 0 -	- 0 -	- 0 -	- 0 -
Director (Atlas),	2006	118,750	- 0 -	- 0 -	58,466	- 0 -	- 0 -
President, CEO Nano Clay Technologies, Inc.							
Barbara Suveg	2007	132,283	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Interim Corporate Secretary, Accountant (4)							
Ronald Short	2007	121,713	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Operations	2006	66,644	14,000	- 0 -	- 0 -	- 0 -	- 0 -
Manager Contract Mining Division							

(1) Mr. Jacobson was Chairman at all times during 2007, but not CEO, President, or an employee during the period from July 9, 2007 to November 30, 2007. His employment agreement was in effect at all times.

(2) Mr. Dumont served as President and CEO from July 9, 2007 until November 28, 2007.

(3) Mr. Dumont entered into a three year employment agreement dated July 9, 2007. The employment agreement called for an annual salary of $300,000, the grant of options to purchase 2.5 million shares of common stock at $2.74 per share, 1 million of which vested on the grant date, and an award of 500,000 shares of common stock, 250,000 of which vested on the award date. No options were exercised and no certificates for the 250,000 vested shares of common stock were issued. Mr. Dumont resigned on November 28, 2007. We treated Mr. Dumont's voluntary resignation as a breach of his employment agreement and we recognized no amounts for financial statement reporting purposes in accordance with SFAS 123(R) with respect to the option grants, the stock award is recorded as a liability.

(4) Ms. Suveg entered into an employment contract dated August 8, 2007. The employment contract called for the grant of options to purchase 250,000 shares of common stock at $2.41 per share, 100,000 of which vested on the grant date. No options were exercised. Ms. Suveg resigned as CFO on November 13, 2007. We treated Ms. Suveg's voluntary resignation as a breach of her employment agreement and we recognized no amounts for financial statement reporting purposes in accordance with SFAS 123(R) with respect to the option grants.

STOCK OPTIONS

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Uncerlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Shares or Units of Stock That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
William Jacobson	688,577	1,000,000	- 0 -	$0.18	6/27/008	1,000,000	$800,000	- 0 -	$ - 0 -
Robert Dumont (1)									
Ronald Price	750,000	250,000	- 0 -	$1.46	1/14/11	250,000	200,000	- 0 -	- 0 -
Barbara Suveg (2)									
Ronald Short	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) Mr. Dumont entered into an employment agreement dated July 9, 2007. The employment agreement called for the grant of options to purchase 2.5 million shares of common stock at $2.74 per share, 1 million of which vested on the grant date, and the award of 500,000 shares of common stock, 250,000 vested on the award date. No options were exercised and no certificates for the 250,000 vested shares of common stock were issued. We treated Mr. Dumont's voluntary resignation as a breach of his employment agreement and we recognized no amounts for financial statement reporting purposes in accordance with SFAS 123(R) with respect to the option grants. The stock has been recorded as a liability at December 31, 2007.

(2) Ms. Suveg entered into an employment agreement dated August 8, 2007. The employment agreement called for the grant of options to purchase 250,000 shares of common stock at $2.41 per share, 100,000 of which vested on the grant date. No options were exercised. We treated Ms. Suveg's voluntary resignation as a breach of her employment agreement and we recognized no amounts for financial statement reporting purposes in accordance with SFAS 123(R) with respect to the option grants.

DIRECTOR COMPENSATION FOR THE YEAR ENDED DECEMBER 31, 2007

Directors received no separate compensation for service as directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of December 31, 2007, information regarding the beneficial ownership of our common stock with respect to each of our executive officers, each of our directors, each person known by us to own beneficially more than 5% of the common stock, and all of our directors and executive officers as a group. The term "executive officer" is defined as the Chief Executive Officer, Secretary, Treasurer and the Vice-President. Each individual or entity named has sole investment and voting power with respect to shares of common stock indicated as beneficially owned by them, subject to community property laws, where applicable, except where otherwise noted. The percentage of common stock beneficially owned is based on 54,173,594 shares of common stock outstanding as of December 31, 2007.

Name and Address (1)	Number of Shares of Common Stock Beneficially Owned (2)	Percentage of Common Stock Beneficially Owned
William T. Jacobson (3) (4)	3,320,083	6.10%
John Harvey (4)	- 0 -	0%
Ronald R. Price (3) (4)	60,500	*
Barbara Suveg (3)	100	*
All Officers and Directors as a Group	3,390,183	6.25%
IBS Capital LLC (5)	9,689,082	17.89%
* Less than 1%		

(1) Unless otherwise indicated, the address of the persons named in this column is c/o Atlas Mining Company, P O Box 968, Osburn, Idaho 83849.

(2) Included in this calculation are shares deemed beneficially owned by virtue of the individual's right to acquire them within 60 days of the date of this report that would be required to be reported pursuant to Rule 13d-3 of the Securities Exchange Act of 1934.

(3) Executive Officer.

(4) Director.

(5) IBS Capital LLC, Two International Place, 24th Floor, Boston, Massachusetts 02110, is the beneficial owner of shares held by funds it manages by virtue of the right to vote and dispose of the securities. One fund, the IBS Turnaournd Fund (QP) (A Limited Partnership), owned 11.56% of outstanding shares at December 31, 2007.

37

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

We are a related party to Clearwater Mines, Inc. ("Clearwater"), an entity with common officers (William Jacobson) and directors (William Jacobson). During the year ended December 31, 2006, we paid $3,188 to Clearwater as a stock assessment to retain ownership in Clearwater common stock. At December 31, 2006, Clearwater owed us $11,139 for services provided by our staff for the Clearwater common stock assessment. At December 31, 2007, Clearwater owed the Company $1,618.
In January 2007, we received 502,090 shares of common stock in Clearwater as a payment of a previously impaired loan. The original loan amount of $50,000 was impaired to $0 at the year ended December 31, 2005 as we deemed the debt to be permanently uncollectible at that time. The shares received as payment were valued at the level of the original debt and recorded as other income. However, as the shares have no identifiable market value, management elected to permanently impair the shares to $0, thus having no affect on our net income.

On March 19, 2007, we extended a short-term loan in the amount of $20,000 to KAT Exploration, a related party with common ownership interest. The loan does not have a defined payment schedule, interest rate or termination date. The loan is uncollateralized. We believe that the probability of collecting the principal value of the note is remote and has written off the amount as bad debt expense.

In September 2007, we entered into a rental lease for its office space with its then CEO, Robert Dumont. The lease was a month to month arrangement with the ability for either party to terminate the agreement, in writing, with thirty days notice. The monthly rent was $3,300. We terminated the agreement the beginning of December 2007.

Because all directors were employees or had been employees within three years, none were independent under the listing standards of the New York Stock Exchange or NASDAQ.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees for audit services rendered by PMB Helin Donovan the independent auditor for the audit of our annual consolidated financial statements for the year ended December 31, 2007, and Chisholm, Bierwolf and Nilson LLC, the independent auditor for the audit of our annual consolidated financial statements for the year ended December 31, 2006. The table includes fees for reaudits of our annual consolidated financial statements for the year ended December 31, 2006 performed by PMB Helin Donovan. In addition, the table includes information for other services rendered by the independent auditor during the same periods.

	PMB Helin Donovan LLC December 31, 2007	Chisholm, Bierwolf and Nilson, LLC December 31, 2006	PMB Helin Donovan LLC December 31, 2006	Chisholm, Bierwolf and Nilson, LLC December 31, 2006
Audit Fees (1)	$48,912	$9,608	$139,375	$48,537
Audit-Related Fees	- 0 -	- 0 -	- 0 -	- 0 -
Tax Fees (2)	- 0 -	- 0 -	- 0 -	- 0 -
All Other Fees (3)	- 0 -	- 0 -	- 0 -	- 0 -
Total	$48,912	$9,608	$139,375	$48,537

(1) Fees for audit services billed or expected to be billed relating to fiscal 2007 consisted of (a) audit of our financial statements, (b) reviews of our quarterly financial statements, statutory and regulatory audits, consents and other services related to SEC matters, (c) audit of our internal control over financial reporting with the objective of obtaining reasonable assurance about whether effective control over financial reporting was maintained in all material respects, and (d) attestation of management’s assessment of internal control, as required by the Sarbanes-Oxley Act of 2002, Section 404. These fees were pre-approved by the Board of Directors.

Fees for audit services billed or expected to be billed relating to fiscal 2006 consisted of (a) audit of our financial statements, and (b) reviews of our quarterly financial statements, statutory and regulatory audits, consents and other services related to SEC matters.

(2) Tax fees represent the aggregate fees paid for professional services, principally including fees for tax compliance and tax advice.

(3) All other fees represent the aggregate fees paid for products and services that are not included in the “Audit fees,” “Audi-related fees,” and “Tax fees” sections. The Board of Directors has considered whether the provision of non-audit services is compatible with maintaining the principal registered public accounting firm’s independence.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

	Page
Report of Independent Registered Public Accounting Firm	F-1
Financial Statements:	
Consolidated Balance Sheets as of December 31, 2007 and 2006 (restated)	F-2 – F-3
Consolidated Statement of Operations and Comprehensive Loss for Years Ended December 31, 2007 and 2006 (restated)	F-4 – F-5
Consolidated Statement of Shareholders' Equity for the Years Ended December 31, 2007 and 2006 (restated)	F-6
Consolidated Statement of Cash Flows for Years Ended December 31, 2007 and 2006 (restated)	F-7 – F-8
Notes to Consolidated Financial Statements	F-9– F-43

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Atlas Mining Company

We have audited the accompanying balance sheets of Atlas Mining Company as of December 31, 2007 and 2006, and the related statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2007. Atlas Mining Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlas Mining Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Atlas Mining Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July 10, 2009 expressed an unqualified opinion.

As discussed in Note 3 to the consolidated financial statements, the accompanying 2006 financial statements have been restated.

PMB Helin Donovan, LLP
Spokane, WA
July 10, 2009

ATLAS MINING COMPANY AND SUBSIDIARIES
Consolidated Balance Sheets

	December 31, 2007	December 31, 2006 Restated
Current Assets		
Cash and cash equivalents	$1,210,621	$217,102
Accounts receivable (net of allowance of $0)	911,710	876,355
Accounts receivable – related party	1,618	11,139
Investments – available for sale	4,886	3,794
Advances	1,054	618
Mining supplies	40,544	2,000
Deposits and prepaids	396,217	169,623
Total Current Assets	2,566,650	1,280,631
Property and Equipment		
Land and tunnels	1,062,499	1,076,299
Land improvements	91,835	83,987
Buildings	551,383	291,214
Mining equipment	1,485,936	972,060
Milling equipment	886,982	586,979
Laboratory equipment	75,968	74,174
Office furniture and equipment	37,962	1,300
Vehicles	236,530	150,952
Less: Accumulated depreciation	(724,102)	(408,145)
Total Property and Equipment	3,704,993	2,828,820
TOTAL ASSETS	$6,271,643	$4,109,451

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

ATLAS MINING COMPANY AND SUBSIDIARIES
Consolidated Balance Sheets

	December 31, 2007	December 31, 2006 Restated
Current Liabilities		
Accounts payable and accrued liabilities	$803,752	$486,973
Stock awards payable	280,000	- 0 -
Current portion of notes payable	111,571	123,588
Current portion of leases payable	153,064	141,816
Total Current Liabilities	1,348,387	752,377
Long-Term Liabilities		
Long-term portion of notes payable	9,481	39,035
Long-term portion of leases payable	344,356	90,446
Total Long-Term Liabilities	353,837	129,481
TOTAL LIABILITIES	1,702,224	881,858
Commitments and Contingencies		
Minority Interest	52,415	52,415
Stockholders' Equity		
Preferred stock, $1.00 par value, 10,000,000 shares authorized, noncumulative, nonvoting, nonconvertible, none issued or outstanding	- 0 -	- 0 -
Common stock, no par value, 60,000,000 shares authorized, 54,173,594 and 51,278,334 shares issued and outstanding at December 31, 2007 and 2006, respectively	19,108,111	16,087,361
Accumulated deficit	(14,589,101)	(12,907,385)
Accumulated other comprehensive loss	(2,006)	(4,798)
Total Stockholders' Equity	4,517,004	3,175,178
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$6,271,643	$4,109,451

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

ATLAS MINING COMPANY AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Loss

	For the year ended December 31, 2007	2006 Restated
REVENUES:		
Contract mining	$7,731,081	$3,800,104
Total Revenues	7,731,081	3,800,104
COST OF SALES:		
Contract mining	4,712,662	2,611,819
Total Cost of Sales	4,712,662	2,611,819
Gross Profit	3,018,419	1,188,285
OPERATING (INCOME) EXPENSES:		
Exploration & development costs	1,449,526	2,150,911
Mining production costs	947,266	161,236
General & administrative	2,892,004	1,225,147
Disposition of land and equipment	(115,497)	- 0 -
Loss on abandonment of equipment	44,406	- 0 -
Total Operating Expenses	5,217,705	3,537,294
Net Operating Loss	(2,199,286)	(2,349,009)
OTHER INCOME (EXPENSE):		
Interest income	56,873	30,076
Interest expense	(20,744)	(20,075)
Gain on revaluation of stock awards	646,000	- 0 -
Realized loss on securities available for sale	(414)	(39,219)
Contract settlement	- 0 -	250,000
Other income	15,000	17,554
Bad debt	(179,145)	- 0 -
Total Other Income (Expenses)	517,570	238,336
Loss Before Income Taxes	(1,681,716)	(2,110,673)
Provision (Benefit) for Income Taxes	- 0 -	- 0 -
Minority Interest	- 0 -	(510)
Net Loss	$(1,681,716)	$(2,111,183)
Net Loss Per Share (Basic and Diluted)	$(0.03)	$(0.04)
Weighted Average Shares Outstanding	53,504,206	49,446,722

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

ATLAS MINING COMPANY AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Loss

	For the year ended December 31, 2007	For the year ended December 31, 2006 Restated
Net Loss	$(1,681,716)	$(2,111,183)
Comprehensive Gain:		
Change in Market Value of Investments	2,792	1,112
Net Comprehensive Loss	$(1,678,924)	$(2,110,071)

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

F-5

ATLAS MINING COMPANY AND SUBSIDIARIES
Statement of Stockholders' Equity
For the years ended December 31, 2007 and 2006 (restated)

	Preferred Stock		Common Stock		Accumu-lated	Accumulated Other Comprehensive Income	Total Stock-holders'
	Shares	Amount	Shares	Amount	Deficit	(Loss)	Equity
Beginning Balance, January 1, 2006 (as previously reported)	- 0 -	$- 0 -	48,852,892	$13,596,492	$(9,649,505)	$ (123,218)	$3,823,769
Prior period adjustment (see Note 3)	- 0 -	- 0 -	2,795	643,548	(1,146,697)	117,308	(385,841)
Shares issued for services between $0.90 and $1.40	- 0 -	- 0 -	90,500	101,700	- 0 -	- 0 -	101,700
Shares issued for exercise of warrants for cash between $0.25 and $0.50	- 0 -	- 0 -	1,256,980	546,745	- 0 -	- 0 -	546,745
Shares issued for cash at $2.00	- 0 -	- 0 -	340,500	681,000	- 0 -	- 0 -	681,000
Shares issued for payment of exploration costs at $1.25	- 0 -	- 0 -	8,000	10,000	- 0 -	- 0 -	10,000
Shares issued for options exercised at $0.18 cash	- 0 -	- 0 -	726,667	130,800	- 0 -	- 0 -	130,800
Net change in unrealized loss on available for sale securities	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	1,112	1,112
Compensation for options issued to employees	- 0 -	- 0 -	- 0 -	377,076	- 0 -	- 0 -	377,076

Net loss for the year ended December 31, 2006	- 0 -	- 0 -	- 0 -	- 0 -	(2,111,183)	- 0 -	(2,111,183)
Balance, December 31, 2006 (restated)	- 0 -	- 0 -	51,278,334	16,087,361	(12,907,385)	(4,798)	3,175,178
Shares issued for redemption of warrants between $0.25 and $0.50 for cash and bonus	- 0 -	- 0 -	323,430	150,858	- 0 -	- 0 -	150,858
Shares issued for cash at $1.35	- 0 -	- 0 -	1,481,482	2,000,001	- 0 -	- 0 -	2,000,001
Shares issued for settlement of debt	- 0 -	- 0 -	4,592	8,633	- 0 -	- 0 -	8,633
Shares issued in conversion of minority interest shares	- 0 -	- 0 -	1,000	- 0 -	- 0 -	- 0 -	1,000
Shares issued for options exercised at $0.18 for cash and compensation	- 0 -	- 0 -	833,330	149,999	- 0 -	- 0 -	149,999
Shares issued in cash-less exercise of options for compensation	- 0 -	- 0 -	251,426	45,257	- 0 -	- 0 -	45,257
Net change in unrealized gain (loss) on available for sale securities	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	2,792	2,792
Compensation for options issued to employees	- 0 -	- 0 -	- 0 -	666,002	- 0 -	- 0 -	666,002

Net loss for the year ended December 31, 2007	- 0 -	- 0 -	- 0 -	- 0 -	(1,681,716)	- 0 -	(1,681,716)
Balance, December 31, 2007	- 0 -	$- 0 -	54,173,594	$19,108,111	$(14,589,101)	$ (2,006)	$4,517,004

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

ATLAS MINING COMPANY AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	For the year ended December 31, 2007	2006 Restated
Cash Flows from Operating Activities:		
Net Loss	$ (1,681,716)	$(2,111,183)
Adjustments to Reconcile Net Loss to		
Net Cash Used by Operations:		
Depreciation	376,228	178,832
Non-cash exercise of warrants for bonus	35,000	- 0 -
Non-cash exercise of options for compensation	45,257	- 0 -
Stock issued for services	- 0 -	111,700
Securities received for services	- 0 -	(10,000)
Options granted	666,002	377,076
Other non-cash compensation expense	926,000	- 0 -
Gain on revaluation of stock awards	(646,000)	- 0 -
Minority interest	- 0 -	510
Realized (gain) loss on securities available for sale	414	39,219
Gain on sale of equipment	(115,497)	- 0 -
Loss on disposition of equipment	44,406	- 0 -
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts receivable	(25,834)	(847,321)
Mining supplies	(38,544)	7,000
Deposits and prepaids	(226,594)	(50,047)
Advances	(436)	40
Increase (Decrease) in:		
Deferred revenue	- 0 -	(250,000)
Accounts payable and accrued expenses	316,777	287,790
Stock award payable	280,000	making dividends or distributions;

making capital expenditures in excess of specified levels;

making certain negative pledges and granting certain liens;

selling, transferring, assigning or

- conveying assets;
- making certain loans and investments; and
- entering into a new line of business.

In addition, the term loan for one of our LNG carriers, the *Catalunya Spirit*, contains covenants that require the maintenance of a minimum liquidity of 5.0 million Euros and make an annual 1.2 million Euro restricted cash deposit.

Our other LNG carrier term loan agreements (other than for RasGas II) currently contain covenants that require the maintenance of cash collateral, unencumbered liquidity and minimum tangible net worth. In addition, the shipowning subsidiaries may not pay dividends or distributions if we are in default under the term loan agreements.

The RasGas II term loan agreements we expect to assume require Teekay Shipping Corporation s guaranty and require Teekay Shipping Corporation to maintain at least $100.0 million of free liquidity and that the amount of Teekay Shipping Corporation s consolidated free liquidity plus any undrawn revolving credit facilities not be less than 7.5% of Teekay Shipping Corporation s total consolidated debt.

We are currently in compliance with all of our financing agreements and expect to remain in compliance. In the future, some of the covenants and restrictions in our financing agreements could restrict the use of cash generated by our shipowning subsidiaries in a manner that could adversely affect our ability to pay the minimum quarterly distribution on our units. However, we currently do not expect that our covenants will have such an effect.

Sale of the Granada Spirit

The *Granada Spirit* is a single-hulled tanker that was built in 1990 and acquired by Tapias. The *Granada Spirit* has operated in the spot market. In December 2004, this vessel was transferred to another subsidiary of Teekay Shipping Corporation not organized in Spain in connection with a significant drydocking and re-flagging of the vessel.

At the closing of this offering, Teekay Shipping Corporation will contribute to us the *Granada Spirit* and enter into a short-term, fixed-rate time charter to increase the predictability and stability of the

94

vessel s cash flow compared to its prior operation in the spot market. The charter will terminate upon the earlier of the delivery of our Suezmax newbuilding, the *Toledo Spirit*, which is scheduled for July 20, 2005, or December 31, 2005, subject to an early termination right of Teekay Shipping Corporation, as described below. Upon termination of the charter, Teekay Shipping Corporation will purchase the vessel. If the charter terminates on July 20, 2005 with the scheduled delivery of the *Toledo Spirit*, Teekay Shipping Corporation will purchase the *Granada Spirit* for $19.5 million. If the *Toledo Spirit* delivers after July 20, 2005 and Teekay Shipping Corporation does not terminate the charter, the $19.5 million purchase price will be reduced by $250,000 per month, or portion of month. Teekay Shipping Corporation will also have the right to terminate the charter early and purchase the *Granada Spirit* at any time prior to July 20, 2005 and prior to delivery of the *Toledo Spirit*. If Teekay Shipping Corporation exercises this right, it will pay us $19.5 million plus $600,000 for each month, or portion of a month, we do not have the benefit of the time charter prior to July 20, 2005. The additional payment reflects the estimated monthly depreciation and the amount of cash flow we would otherwise earn on the *Granada Spirit* pending the scheduled delivery of the *Toledo Spirit*.

Contractual Obligations and Contingencies

The following table summarizes our long-term contractual obligations as at December 31, 2004:

	2005	2006	2007	2008	2009	Thereafter	Total
			(in millions of U.S. Dollars)				
U.S. Dollar-Denominated Obligations:							
Long-term debt(1)	$ 11.3	$ 7.0	$ 7.6	$ 8.2	$ 140.5	$ 168.8	$ 343.4
Commitments under capital leases(2)(3)	21.0	145.8	3.9	3.9	3.8	42.8	221.2
Newbuilding installments	42.8						42.8
Total U.S. Dollar-denominated obligations	75.1	152.8	11.5	12.1	144.3	211.6	607.4
Euro-Denominated Obligations:(4)							
Long-term debt(5)	11.1	9.4	10.0	10.8	11.5	389.9	442.7
Commitments under capital leases(2)	105.0	167.8	31.7	33.3	34.9	124.9	497.6
Total Euro-denominated obligations	116.1	177.2	41.7	44.1	46.4	514.8	940.3
Total long-term obligations	$ 191.2	$ 330.0	$ 53.2	$ 56.2	$ 190.7	$ 726.4	$ 1,547.7

(1) Interest payments are based on LIBOR plus a margin, depending on our financial leverage.

(2) Includes purchase obligations.

(3) Excludes payments for a Suezmax newbuilding on capital lease that is scheduled to deliver in the third quarter of 2005.

(4) Euro-denominated amounts are based on the prevailing exchange rate as of December 31, 2004.

(5) Interest payments are based on EURIBOR plus a margin, depending on our financial leverage.

95

On a pro forma basis, after giving effect to the repayment of debt and an advance from Teekay Shipping Corporation described in Use of Proceeds, our long-term contractual obligations as at December 31, 2004 would have consisted of the following:

	2005	2006	2007	2008	2009	Thereafter	Total
	(in millions of U.S. Dollars)						
U.S. Dollar-Denominated Obligations:							
Long-term debt(1)	$ 5.0	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 9.2	$ 15.0
RasGas II purchase commitment(2)		124.5					124.5
Other U.S. Dollar-denominated obligations	63.8	145.8	3.9	3.9	3.8	42.8	264.0
Total U.S. Dollar-denominated obligations	68.8	270.5	4.1	4.1	4.0	52.0	403.5
Euro-Denominated Obligations:(3)							
Total Euro-denominated obligations	116.1	177.2	41.7	44.1	46.4	514.8	940.3
Total long-term obligations	$ 184.9	$ 447.7	$ 45.8	$ 48.2	$ 50.4	$ 566.8	$ 1,343.8

(1) Interest payments are based on LIBOR plus a margin, depending on our financial leverage. Please read Use of Proceeds and the unaudited pro forma consolidated financial statements included elsewhere in this prospectus.

(2) Represents our estimate of the purchase price for Teekay Shipping Corporation s interest in the three RasGas II LNG carrier newbuildings, excluding the assumption of approximately $468.0 million of debt. Assumes Qatar Gas Transport does not exercise its options to purchase up to 30% of the interest in the RasGas II vessels. In connection with this purchase, we will assume the $68.6 million of construction installment payments due in 2007 for the last two vessels to be delivered.

(3) Euro-denominated amounts are based on the prevailing exchange rate as of December 31, 2004.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with GAAP, which require us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. Following is a discussion of the accounting policies that involve a high degree of judgment and the methods of their application. For a further description of our material accounting policies, please read Note 1 to our historical consolidated financial statements included elsewhere in this prospectus.

Revenue Recognition

We recognize revenues from time charters daily over the term of the charter as the applicable vessel operates under the charter. We do not recognize revenues during days that the vessel is off-hire.

In the past, we generated a portion of our revenues from voyage charters. Within the shipping industry, the two methods used to account for voyage revenues and expenses from voyage charters are the percentage of completion and the completed voyage methods. Most shipping companies, including us, use the percentage of completion method. For each method, voyages may be calculated on either a load-to-load or discharge-to-discharge basis. In other words,

revenues are recognized ratably either from the beginning of when product is loaded for one voyage to when it is loaded for another voyage, or from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. In applying the percentage of completion method, we believe that, in most cases, the discharge-to-discharge basis of calculating voyages more accurately reflects voyage results than the load-to-load basis. At the time of cargo discharge, we generally have information about the next load port and expected discharge port, whereas at the time of loading we are normally less certain what the next load port will be. We have used this method of revenue recognition for all spot voyages. However, we do not begin recognizing voyage revenue until a charter has been agreed to by the customer and us, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

Vessel Lives and Impairment

The carrying value of each of our vessels represents its original cost at the time of delivery or purchase less depreciation or impairment charges. We depreciate our vessels on a straight-line basis over a vessel s estimated useful life, less an estimated residual value. Depreciation is calculated using an estimated useful life of 25 years for Suezmax tankers and 35 years for LNG carriers, from the date the vessel was originally delivered from the shipyard, or a shorter period if regulations prevent us from operating the vessels to 25 years or 35 years, respectively. In the shipping industry, the use of a 25-year vessel life for Suezmax tankers has become the prevailing standard. In addition, the use of a 30- to 40-year vessel life for LNG carriers is typical. However, the actual life of a vessel may be different, with a shorter life potentially resulting in an impairment loss. We are not aware of any regulatory changes or environmental liabilities that we anticipate will have a material impact on the vessel lives of our current fleet, other than our one single-hull Suezmax tanker (the *Granada Spirit*), which we will sell to Teekay Shipping Corporation prior to its required phase-out under applicable regulations. Please read Certain Relationships and Related Party Transactions Granada Spirit Charter and Purchase Agreement.

The carrying values of our vessels may not represent their fair market value at any point in time since the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. We review vessels and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. We measure the recoverability of an asset by comparing its carrying amount to future undiscounted cash flows that the asset is expected to generate over its remaining useful life. If we consider a vessel or equipment to be impaired, we recognize impairment in an amount equal to the excess of the carrying value of the asset over its fair market value.

Generally, we drydock each LNG carrier and Suezmax tanker every five years. In addition, a shipping society classification intermediate survey is performed on our LNG carriers between the second and third year of the five-year drydocking period. We capitalize a substantial portion of the costs we incur during drydocking and for the survey and amortize those costs on a straight-line basis from the completion of a drydocking or intermediate survey to the estimated completion of the next drydocking. We expense costs related to routine repairs and maintenance incurred during drydocking that do not improve or extend the useful lives of the assets. When significant drydocking expenditures occur prior to the expiration of this period, we expense the remaining unamortized balance of the original drydocking cost and any unamortized intermediate survey costs in the month of the subsequent drydocking.

Derivative Instruments

We utilize derivative financial instruments to reduce interest rate risks. We do not hold or issue derivative financial instruments for trading purposes. Statement of Financial Accounting Standards (or *SFAS*) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* which was amended in June 2000 by SFAS No. 138 and in May 2003 by SFAS No. 149, establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Derivatives that are not hedges or are not designated as hedges are adjusted to fair value through income. If the derivative is a hedge, depending upon the nature of the hedge, changes in the fair value of the derivatives are either offset against the fair value of assets, liabilities or firm commitments through income, or recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of a derivative s change in fair value is immediately recognized into income.

Goodwill

Effective January 1, 2002, goodwill and intangible assets with indefinite lives are not amortized, but reviewed for impairment annually, or more frequently if impairment indicators arise. An impairment test

requires us to estimate future cash flows. If events or circumstances change, including reductions in anticipated cash flows generated by operations, goodwill could become impaired and require a charge to earnings.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to the impact of interest rate changes primarily through our unhedged floating-rate borrowings. Significant increases in interest rates could adversely affect our operating margins, results of operations and our ability to service our debt. We use interest rate swaps to reduce our exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with our floating-rate debt. As at December 31, 2004, our unhedged floating-rate borrowings totaled $17.8 million. A 1% increase in the interest rates on that amount would result in $0.2 million in additional annual interest payments.

The table below provides information about our financial instruments at December 31, 2004 that are sensitive to changes in interest rates. For debt obligations, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates. In April 2005, we terminated our U.S. Dollar-denominated interest rate swaps, and we have terminated and replaced our Euro-denominated swaps. The contract amount and average fixed pay rate will be adjusted accordingly.

	Expected Maturity Date					
	2005	**2006**	**2007**	**2008**	**2009**	**Thereafter**
	(in millions, except percentages)					
Long-Term Debt:						
Floating-rate debt	*please read Contractual Obligations and Contingencies above*					
Interest Rate Swaps:(1)(2)						
Contract amount (U.S. Dollar- denominated)	$ 6.5	$ 7.0	7.6	$ 8.2	$ 140.5	$ 158.5
Average fixed pay rate	6.76%	6.76%	6.76%	6.76%	6.96%	6.41%
Contract amount (Euro-denominated)	$ 8.3	$ 9.3	10.0	$ 10.7	$ 11.5	$ 391.0
Average fixed pay rate	5.90%	5.90%	5.90%	5.90%	5.90%	5.89%

(1) The average variable receive rate for our interest rate swaps is set monthly at one-month LIBOR or EURIBOR or semi-annually at six-month LIBOR or EURIBOR.

(2) The average fixed pay rate excludes the margin we pay on our floating-rate debt.

The following table sets forth further information about our interest rate swap agreements, long-term debt and capital lease obligations as at December 31, 2003 and 2004. In connection with the repayment and replacement of our interest rate swaps in April 2005, we no longer have obligations under our U.S. Dollar-denominated swaps, and our Euro-denominated swaps had a fair value, or carrying amount, of zero and a current market rate at the time of replacement.

	Contract Amount	Fair Value/Carrying Amount	Rate(1)
	(in millions)		
December 31, 2004			
Interest Rate Swap Agreements:			
U.S. Dollar-denominated	$ 328.5	$ 44.3	6.67%
Euro-denominated	$ 441.0	$ 90.6	5.89%
Long-Term Debt:(2)			
U.S. Dollar-denominated	$ 343.4	$ 343.4	3.69%
Euro-denominated	$ 443.7	$ 443.7	3.37%
December 31, 2003			
Interest Rate Swap Agreements:			
U.S. Dollar-denominated	$ 295.6	$ 47.8	6.71%
Euro-denominated	$ 349.0	$ 48.3	5.94%
Long-Term Debt:(2)			
U.S. Dollar-denominated	$ 371.3	$ 371.3	2.21%
Euro-denominated	$ 372.4	$ 372.4	3.27%

(1) Rate refers to the weighted-average effective interest rate for our debt and average fixed pay rate for our swap agreements. The average fixed pay rate excludes the margin we pay on our floating-rate debt.

(2) Excludes fixed-rate capital lease obligations.

Counterparties to these financial instruments expose us to credit-related losses in the event of nonperformance; however, counterparties to these agreements are major financial institutions, and we consider the risk of loss due to nonperformance to be minimal. We do not require collateral from these institutions. We do not hold or issue interest rate swaps for trading purposes.

We are exposed to the impact of changes in foreign currency exchange rates. Revenues generated from three of our time charters are either partially or solely denominated in Euros. In 2004, we earned approximately 23.4 million Euros ($29.1 million) in Euro-denominated revenues. With the delivery of two LNG carriers during 2004, we expect this to increase to approximately 47 million Euros ($61 million) per year beginning in 2005. In addition, approximately 85% of our vessel operating expenses are denominated in Euros, which is primarily a function of the nationality of our crew. We expect a similar proportion of our vessel operating expenses to continue to be Euro-denominated in 2005. Historically, almost all of our general and administrative expenses have been denominated in Euros. However, we expect this to decrease somewhat during 2005, as we will be incurring additional general and administrative expenses that are denominated in both Canadian Dollars and U.S. Dollars. As at December 31, 2004, we had approximately $443.7 million of Euro-denominated debt. We have not entered into any forward contracts or similar arrangements to protect against the currency risk of foreign currency-denominated revenues, expenses, monetary assets or monetary liabilities. See Overview Important Financial and Operational Terms and Concepts Foreign Currency Fluctuations.

99

INDUSTRY

We obtained the information in this prospectus about the liquefied natural gas and seaborne oil transportation industries from several independent outside sources, including the Energy Information Administration (or EIA*), an independent statistical and analytical agency within the U.S. Department of Energy; Clarkson Research Studies* (*or* CRS)*, the research division of H. Clarkson & Co. Ltd.; the International Energy Agency (or* IEA*), an autonomous energy forum for 26 industrial countries; and the U.S. Federal Energy Regulatory Commission (or* FERC*). Much of the most recent government data available regarding the liquefied natural gas industry is for 2002 and 2003.*

Liquefied Natural Gas

Natural gas is the world s fastest-growing primary energy source. In 2001, the consumption of natural gas accounted for approximately 23% of world energy consumption, and the EIA expects global consumption to grow from 90 trillion cubic feet (or *Tcf*) in 2001 to 118 Tcf in 2015, representing a compounded annual growth rate of 2.0%. Economic growth, the abundance of natural gas and its clean-burning nature and the wide applicability of natural gas as a fuel source have been driving this growth. Liquefied natural gas (or *LNG*) provides a cost-effective means for transporting natural gas overseas by supercooling it to a liquid form, which reduces its volume to approximately 1/600th of its gaseous state. Between 1993 and 2003, the annual amount of LNG shipped internationally increased by a 7.0% compounded annual growth rate, from 3.0 Tcf to 5.9 Tcf, as a result of improvements in liquefaction and regasification technologies, decreases in LNG shipping costs and increases in demand from consuming regions located far from natural gas reserves. The IEA expects the LNG shipping industry to continue to grow rapidly, with worldwide LNG trade projected to increase by a 6.6% compounded annual growth rate from 2002 to 2010, with annual international LNG shipments reaching 8.8 Tcf in 2010. Historically, LNG trade primarily centered around the major LNG exporters of Indonesia, Malaysia and Algeria and the major LNG importers of Japan, South Korea and Taiwan. However, we expect the Middle East and Africa to continue to be increasingly important LNG exporting areas and Russia, with its vast natural gas reserves, to become an LNG exporter. We also expect Europe and North America to be among the major LNG importers. To meet projected LNG shipping demand, LNG Shipping Solutions Ltd. estimates that the world LNG carrier fleet must expand to approximately 364 carriers by 2010 from its current size of 180 existing vessels and 108 vessels under order or construction as of April 1, 2005.

Overview of Natural Gas Market

Natural gas is used primarily to generate electricity and as a heating source. Natural gas is abundant, with worldwide natural gas reserves estimated at 6,000 Tcf, or 67 times the volume of natural gas consumed in 2001.

Consumption of natural gas has been increasing steadily and is projected to continue to rise due to a number of factors, such as:

- global economic growth and increasing energy demand;
- natural gas being a cleaner burning fuel than coal and oil, contributing to an increase in the development of power plants that run on natural gas;
- the wide applicability of natural gas as a fuel source, along with consumer desires to diversify fuel sources; and
- market deregulation.

The following chart shows historical and projected world natural gas demand as of 2004.

World Natural Gas Demand

Source: U.S. Department of Energy, April 2004.

As consumption of natural gas continues to rise, there is a growing disparity between the increase in forecasted consumption by industrialized nations and their production levels. This disparity will likely cause major consuming countries to rely on imports for a greater portion of natural gas. Importers will need to decide whether to import natural gas through a pipeline, if possible, or by ship.

Much of the world s natural gas is considered stranded because it is located in regions distant from consuming markets. A pipeline is usually the more economical means of transporting natural gas from producing regions if the consuming market can be served by pipeline and is not too distant from the natural gas reserves. For some areas that lack adequate pipelines such as Japan, South Korea and Taiwan LNG may be the most economical or only feasible form of natural gas that may be imported. For other areas that have extensive existing pipelines such as Europe and North America future demand for natural gas is expected to exceed available reserves and production capacity within the area served by the pipeline network, which may result in additional LNG imports.

Overview of LNG Market

LNG shipping provides a cost-effective means for transporting natural gas overseas. After natural gas is transported by pipeline from production fields to a liquefaction facility, it is supercooled to a temperature of approximately -260 degrees Fahrenheit. This process reduces its volume to approximately 1/600th of its volume in a gaseous state. The reduced volume facilitates economical storage and transportation by ship over long distances, enabling countries with limited natural gas reserves or limited access to long-distance transmission pipelines to meet their demand for natural gas. The LNG is transported overseas in specially built tanks on double-hulled ships to a receiving terminal, where it is offloaded and stored in heavily insulated tanks. In regasification facilities at the receiving terminal, the LNG is returned to its gaseous state (or *regasified*) and then shipped by pipeline for distribution to natural gas customers.

The following diagram shows the flow of natural gas and LNG from production to regasification.

LNG has existed since the early 1900s. LNG was first carried by ship in 1959, and the international LNG trade began in the early 1960s, primarily involving the shipment of LNG from Algeria to the United Kingdom.

In recent years, the demand for LNG has increased as natural gas demand has continued to exceed production in mature gas producing regions, as the cost of liquefying and regasifying has declined due to improved technology, efficiency gains and more competition, and as shipping costs have declined due primarily to lower vessel construction costs. The following chart shows the volume of LNG shipped internationally between 1993 and 2003.

World LNG Imports

Source: U.S. Department of Energy, 1994-2004.

LNG Supply

LNG Exporters. A limited number of countries currently export LNG. In 2003, 12 countries exported a total of 5.9 Tcf of natural gas as LNG worldwide. In 1997, there were nine countries that exported 4.0 Tcf of natural gas as LNG.

Historically, the top three LNG exporters have been Indonesia, Algeria and Malaysia. The following table shows the amount and worldwide percentage of LNG exported by country or region in 2003 and the amount and percentage changes in LNG volume shipped by each country from 2000 to 2003.

Major Exporters of LNG

Country	**2003 Percentage of Worldwide Market**	**2003 Exports**	**Percentage Change in Country Exports From 2000 to 2003**	**Change in Exports From 2000 to 20003**
		(billion cubic feet)		**(billion cubic feet)**
Indonesia	21%	1,245	(4)%	(55)
Algeria	16	968	2	18
Malaysia	14	822	11	82
Qatar	11	669	30	153
Other Middle East	10	582	70	239
Trinidad & Tobago	7	419	198	278
Nigeria	7	405	151	243
Australia	6	371	1	3
Brunei	6	341	7	21
United States	1	65	(2)	(1)
Libya	Less than 1%	25	(8)	(2)

Source: U.S. Department of Energy, 2000-2004.

Export Capacity. A country s ability to export LNG depends on its access to natural gas reserves in excess of its internal consumption and any exports via pipelines and on its capacity to liquefy natural gas.

Natural Gas Reserves. World natural gas reserves are estimated at 6,000 Tcf, or 67 times the volume of natural gas consumed in 2001. In addition, through improved exploratory technologies and drilling of new wells, additional natural gas is discovered each year. However, much of the natural gas is considered stranded because it is located in regions distant from consuming markets.

The following chart shows the percentage of estimated natural gas reserves by country as of January 2004.

World Natural Gas Reserves

Source: U.S. Department of Energy, April 2004.

Liquefaction Facilities. At the end of 2002, almost 47% of global natural gas liquefaction capacity was located in the Asia Pacific region, followed by 25% in Africa and 21% in the Middle East. Global annual liquefaction capacity is projected to expand 46% from 135 million metric tons in 2003 to 197 million metric tons by 2007, based on facilities currently under construction. Significant new LNG projects or expansion of existing projects are underway in Egypt, Qatar, Nigeria, Australia, Trinidad and Tobago, and Russia. The following chart highlights regional liquefaction capacity as of October 2003 and expected capacity by 2007 as a result of facilities then under construction. In addition, the following chart shows facilities that the EIA reported as proposed for development or in planning stages as of October 2003, but which had not then commenced construction. There is no assurance that any of the proposed facilities will actually be constructed, as a result of a failure to obtain financing, a project sponsor s decision not to proceed or otherwise.

Global LNG Liquefaction Facilities

Source: U.S. Department of Energy, December 2003.

While LNG exports primarily have been from the Asia Pacific region, primarily Indonesia and Malaysia, the Middle East and Russia control a substantial portion (over 65%) of the world s natural gas reserves. With gas-rich areas such as these regions and countries constructing or expanding LNG liquefaction facilities, we expect the predominant supply of LNG will shift.

LNG Consumers

LNG Importers. Countries that consume major quantities of natural gas but lack established transmission pipelines or are located far from supplying markets may import LNG as the most economical or only feasible means to obtain natural gas. For instance, natural gas supplied 12% of Japan s energy needs in 2002 even though Japan has little of its own supply and no currently feasible means of establishing a pipeline from producing natural gas fields. In addition, countries that have established pipelines but have mature production fields or are not expected to have sufficient production available to meet continued demand, such as the United States, may import LNG as an alternative supply of natural gas.

The following table shows the amount and percentage of LNG imported by country in 2003 and the amount and percentage changes in LNG volume consumed by each country from 2000 to 2003.

Major Importers of LNG

Country	**2003 Percentage of Worldwide Market**	**2003 Imports**	**Percentage Change in Country Imports From 2000 to 2003**	**Change in Imports From 2000 to 2003**
		(billion cubic feet)		**(billion cubic feet)**
Japan	48%	2,824	6%	167
South Korea	15	896	34	227
Spain	9	519	91	247
United States	9	507	124	280
France	5	319	(15)	(58)
Taiwan	4	258	18	40
Italy	4	234	31	55