ALTAIR NANOTECHNOLOGIES INC
Form 10-Q
May 14, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ________ TO ________

ALTAIR NANOTECHNOLOGIES INC.
(Exact name of registrant as specified in its charter)

| Canada | 1-12497 | None |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File No.) | (IRS Employer No.) Identification |

204 Edison Way, Reno, Nevada 89502
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (775) 858-3750

Indicate by check mark 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 [X] NO [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES [ ] NO [X]

As of May 12, 2003 the registrant had 34,808,236 Common Shares outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES
(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS
(Expressed in United States Dollars)
(Unaudited)

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 296,148 | $ 244,681 |
| Accounts receivable | 995 | 132,859 |
| Other current assets | 24,954 | 22,598 |
| Total current assets | 322,097 | 400,138 |
| Property, Plant and Equipment, net | 7,159,232 | 7,349,818 |
| Patents and Related Expenditures, net | 1,124,829 | 1,146,249 |
| Other Assets | 18,200 | 18,200 |
| Total Assets | $ 8,624,358 | $ 8,914,405 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current Liabilities | | |
| Trade accounts payable | $ 539,265 | $ 455,246 |
| Accrued liabilities | 193,487 | 149,257 |
| Note payable - current portion | 1,300,000 | -- |
| Total current liabilities | 2,032,752 | 604,503 |
| Note Payable, Long-Term Portion | 2,549,135 | 3,905,040 |
| Commitments and Contingencies | | |
| Shareholders' Equity | | |
| Common stock, no par value, unlimited shares authorized; 32,755,941 and 30,244,348 shares issued and outstanding at March 31, 2003 and December 31, 2002 | 44,742,453 | 43,787,850 |
| Deficit accumulated during the development stage | (40,699,982) | (39,382,988) |
| Total Shareholders' Equity | 4,042,471 | 4,404,862 |
| Total Liabilities and Shareholders' Equity | $ 8,624,358 | $ 8,914,405 |

(See Notes to Financial Statements)

ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in United States Dollars)
(Unaudited)

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 | Period April 9, 1973 (date of inception) to March 31, 2003 |
|---|---|---|---|
| Sales | $ 20,277 | $ 48,937 | $ 316,588 |
| Cost of sales | 14,950 | 30,175 | 126,708 |
| Gross Margin | 5,327 | 18,762 | 189,880 |
| Operating Expenses | | | |
| Mineral exploration and development | 28,714 | 152,188 | 6,546,356 |
| Research and development | 212,793 | 138,609 | 3,928,889 |
| Professional services | 184,358 | 226,073 | 3,460,800 |
| General and administrative expenses | 557,838 | 608,128 | 14,765,635 |
| Depreciation and amortization | 218,625 | 285,699 | 5,733,747 |
| Asset impairment | -- | -- | 2,759,956 |
| Total operating expenses | 1,202,328 | 1,410,697 | 37,195,383 |
| Loss from Operations | 1,197,001 | 1,391,935 | 37,005,503 |
| Other (Income) Expense: | | | |
| Interest expense | 120,173 | 288,298 | 4,655,512 |
| Interest income | (180) | (702) | (816,125) |
| Loss (gain) on foreign exchange | -- | -- | (557,942) |
| Loss on extinguishment of debt | -- | -- | 914,667 |
| Gain on forgiveness of debt | -- | -- | (795,972) |
| Loss on redemption of convertible debentures | -- | -- | 193,256 |
| Total other expense, net | 119,993 | 287,596 | 3,593,396 |
| Net loss | 1,316,994 | 1,679,531 | 40,598,899 |
| Preferential Warrant Dividend | -- | -- | 101,083 |
| Net Loss Applicable to Shareholders | $ 1,316,994 | $ 1,679,531 | $ 40,699,982 |
| Loss per common share - Basic and diluted | $ 0.04 | $ 0.07 | $ 4.82 |
| Weighted average shares - Basic and diluted | 30,527,826 | 22,842,455 | 8,451,107 |

(See Notes to Financial Statements)

ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars)
(Unaudited)
Period

| | Three Months Ended March 31, | | April 9, 19 (date of inception) March 31, |
|---|---|---|---|
| | 2003 | 2002 | 2003 |
| Cash flows from exploration activities: | | | |
| Net loss | $ (1,316,994) | $ (1,679,531) | $(40,598,89 |
| Adjustments to reconcile net loss to net cash used in exploration activities: | | | |
| Depreciation and amortization | 218,625 | 285,699 | 5,733,74 |
| Shares issued for services | 51,150 | -- | 354,57 |
| Shares issued for interest | 38,888 | 69,770 | 1,154,92 |
| Issuance of stock options to non-employees | 7,192 | 2,421 | 3,038,33 |
| Issuance of stock options to employees | -- | -- | 78,22 |
| Issuance of stock warrants | 37,368 | 98,280 | 962,22 |
| Amortization of discount on note payable | 44,095 | 107,590 | 843,78 |
| Amortization of debt issuance costs | -- | 63,426 | 504,56 |
| Asset impairment | -- | -- | 2,759,95 |
| Loss on extinguishment of debt | -- | -- | 914,66 |
| Loss on redemption of convertible debentures | -- | -- | 193,25 |
| Gain on forgiveness of debt | -- | -- | (795,97 |
| Loss on disposal of fixed assets | -- | -- | 1,94 |
| Gain on foreign exchange | -- | -- | (559,17 |
| Deferred financing costs written off | -- | -- | 515,84 |
| Changes in assets and liabilities (net of effects of acquisition): | | | |
| Accounts receivable | 131,864 | (3,412) | (99 |
| Other current assets | (2,356) | 235 | 1,709,64 |
| Other assets | -- | 44,911 | (170,72 |
| Trade accounts payable | 84,019 | 153,155 | 424,76 |
| Accrued liabilities | 44,230 | 565,398 | 38,77 |
| Deferred revenue | -- | (40,972) | -- |
| Net cash used in exploration activities | (661,919) | (333,030) | (22,896,53 |
| Cash flows from investing activities: | | | |
| Asset acquisition | -- | -- | (2,422,41 |
| Purchase of property and equipment | (6,619) | (11,094) | (3,668,04 |
| Purchase of patents and related expenditures | -- | -- | (1,882,18 |
| Net cash used in investing activities | (6,619) | (11,094) | (7,972,64 |

(continued)

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ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars)
(Unaudited)
Period

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 | April 9, 1973 (date of inception) to March 31, 2003 |
|---|---|---|---|
| Cash flows from financing activities: | | | |
| Issuance of common shares for cash, net of issuance costs | $ 595,000 | $ 125,000 | $ 22,103,781 |
| Collection of stock subscription receivable | -- | -- | 561,300 |
| Issuance of shares under Employee Stock Purchase Plan | 125,005 | -- | 217,188 |
| Issuance of convertible debenture | -- | -- | 5,000,000 |
| Proceeds from exercise of stock options | -- | -- | 2,708,491 |
| Proceeds from exercise of warrants | -- | -- | 4,917,805 |
| Issuance of related party notes | -- | -- | 174,243 |
| Issuance of notes payable | -- | -- | 9,505,040 |
| Payment of notes payable | -- | -- | (11,120,816) |
| Payment of related party notes | -- | (18,757) | (174,243) |
| Payment on capital lease | -- | (2,312) | (27,075) |
| Purchase of call options | -- | -- | (449,442) |
| Redemption of convertible debentures | -- | -- | (2,250,938) |
| Net cash provided by financing activities | 720,005 | 103,931 | 31,165,334 |
| Net increase (decrease) in cash and equivalents | 51,467 | (240,193) | 296,148 |
| Cash and cash equivalents, beginning of period | 244,681 | 599,884 | None |
| Cash and cash equivalents, end of period | $ 296,148 | $ 359,691 | $ 296,148 |
| Supplemental disclosures: | | | |
| Cash paid for interest | $ 37,189 | None | |
| Cash paid for income taxes | None | None | |

Supplemental schedule of non-cash investing and financing activities:
For the three months ended March 31, 2003:

- We issued 250,001 common shares to Doral 18, LLC in payment of $100,000 of principal on our note payable.

For the three months ended March 31, 2002:

- None

(concluded)

(See Notes to Financial Statements)



ALTAIR NANOTECHNOLOGIES INC. AND SUBSIDIARIES
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Preparation of Financial Statements

These unaudited interim financial statements of Altair Nanotechnologies Inc. and its subsidiaries (collectively, "Altair", "we" or the "Company") have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (the "Commission"). Such rules and regulations allow the omission of certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, so long as the statements are not misleading. In the opinion of Company management, these financial statements and accompanying notes contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position and results of operations for the periods shown. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Commission on March 17, 2003.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the consolidated financial statements, we incurred net losses of $1,316,994 for the quarter ended March 31, 2003, and since the date of inception have incurred cumulative net losses of $40,598,899. At March 31, 2003, current liabilities exceeded current assets by $1,710,655. These factors, among others, may raise substantial doubt about the Company's ability to continue as a going concern.

The consolidated financial statements do not include certain adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern. Our continuation as a going concern is dependent upon our ability to generate sufficient cash flow to meet our obligations on a timely basis, to obtain additional financing or refinancing as may be required, to develop commercially viable products and processes, and ultimately to establish successful operations. We are in the process of developing and commercializing ceramic oxide nanoparticle products that are made with our titanium processing technology. The recoverability of amounts capitalized as property and equipment and patents and related expenditures is dependent upon our ability to successfully develop and commercialize these products.

At March 31, 2003, we had cash and cash equivalents of $296,148, and during the period April 1, 2003 through May 13, 2003 we received net proceeds of $472,103 from sales of common shares and warrants. These amounts of cash are sufficient to fund our basic operations through June 30, 2003. In order to conserve cash, we have reduced our cash expenditures to the extent possible without significantly affecting our development efforts with respect to the titanium processing technology. We will require additional financing during June 2003 in order to provide working capital to fund our day-to-day operations.

Because our projected near-term sales of nanoparticle products are minimal, we expect to generate such funds through additional private placements of our common stock and warrants to purchase our common stock or other debt or equity securities. As of May 13, 2003, we have no commitments to provide additional financing or to purchase a significant quantity of nanoparticle products. If we are unable to obtain financing on a timely basis, we may be forced to more significantly curtail and, at some point, discontinue operations.

The results of operations for the three-month period ended March 31, 2003 are not necessarily indicative of the results to be expected for the full year.

Note 2. Summary of Significant Accounting Policies

Net Loss Per Common Share - Basic net loss per common share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. The existence of stock options, warrants, and



convertible securities affects the calculation of loss per share on a fully diluted basis. When a net loss is reported, the number of shares used for basic and diluted net loss per share is the same since the effect of including the additional common stock equivalents would be antidilutive.

Stock-Based Compensation - We have elected to follow the accounting provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and to furnish the pro forma disclosures required under Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. To estimate compensation expense that would be recognized under SFAS 123, we have used the modified Black-Scholes option pricing model. If we had accounted for our stock options using the accounting method prescribed by SFAS 123, our net loss and loss per share would be as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| Net loss (basic and diluted) as reported | $ 1,316,994 | $ 1,679,531 |
| Deduct: Stock-based employee compensation expense included in reported net loss, net of related tax effects | -- | -- |
| Add: Total stock-based employee compensation expense determined under fair value based method for all awards, | | |

| | | |
|---|---|---|
| net of related tax effects | -- | 38,647 |
| Pro forma net loss | $ 1,316,994 | $ 1,718,178 |
| Loss per common share (basic and diluted): | | |
| As reported | $ 0.04 | $ 0.07 |
| Pro forma | $ 0.04 | $ 0.08 |

Recent Accounting Pronouncements - In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which requires asset retirement obligations to be recognized when they are incurred and displayed as liabilities. SFAS No. 143 is effective for the year ending December 31, 2003. We adopted SFAS No. 143 on January 1, 2003. The impact was not significant on our consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, Interim Financial Reporting, to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. We adopted this statement effective January 1, 2003 but have elected, as permitted under SFAS No. 123, to continue to follow the accounting provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and to furnish the pro forma disclosures required under SFAS No. 148.

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Note 3. Common Stock

| | Common Stock | |
|---|---|---|
| | Shares | Stated Amount |
| Balance, December 31, 2002 | 30,244,348 | $43,787,850 |
| Shares issued for cash | 1,750,000 | 595,000 |
| Stock options issued to non-employees | -- | 7,192 |
| Shares issued for services | 110,000 | 51,150 |
| Stock warrants issued | -- | 37,368 |
| Shares issued under Employee Stock Purchase Plan | 304,371 | 125,005 |
| Shares issued for settlement of debt | 250,001 | 100,000 |
| Shares issued for interest | 97,221 | 38,888 |
| Balance, March 31, 2003 | 32,755,941 | $44,742,453 |

On August 6, 2002, we adopted an Employee Stock Purchase Plan ("ESPP") which allows employees to purchase common shares through payroll deductions. During the quarter ended March 31, 2003, a total of 304,371 common shares were issued under the ESPP at prices ranging from $0.37 to $0.50 per share.

In accordance with the terms of our note payable to Doral 18, LLC ("Doral"), a conversion right with respect to $280,000 of principal accrued on March 1, 2003. Effective that date, Doral had the right to convert all or some of the accrued principal into the Company's common shares using a conversion price equal to 70% of the average closing price of our common shares for the five trading days prior to March 1, 2003. On March 5, 2003, Doral elected to exercise their conversion right with respect to $100,000 of principal and, as a result, we issued to them 347,222 common shares. Of this amount, 250,001 common shares with a fair value of $100,000 relate to the payment of principal against the note. The remaining 97,221 common shares with a fair value of $38,888 represent additional shares issued as a result of the beneficial conversion feature and were recorded as additional interest expense.

On March 31, 2003, we issued 1,750,000 common shares and 1,750,000 warrants in a private placement for cash proceeds of $595,000. The warrants have an exercise price of $1.00 per share and expire in March 2008.

Note 4. Notes Payable

Notes payable consisted of the following at March 31, 2003 and December 31, 2002:

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Note payable to BHP Minerals International, Inc. | $ 2,549,135 | $ 2,505,040 |
| Note payable to Doral 18, LLC | 1,300,000 | 1,400,000 |
| Less current portion | (1,300,000) | -- |
| Long-term portion of notes payable | $ 2,549,135 | $ 3,905,040 |

Note 5. Intangible Assets

Our intangible assets consist of patents and related expenditures associated with the titanium processing technology. In accordance with SFAS No. 142, we are amortizing these assets over their useful lives. The amortized intangible asset balance as of March 31, 2003 was:

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| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| Patents and related expenditures | $ 1,517,736 | $ (392,907) | $ 1,124,829 |

The weighted average amortization period for intangible assets is approximately 16.5 years. Amortization expense was $21,421 for the three months ended March 31, 2003, which represented the amortization relating to the identified intangible assets still required to be amortized under SFAS No. 142. For each of the next five years, amortization expense relating to intangibles will be $85,680 per year.

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

AND RESULTS OF OPERATIONS

The following discussion summarizes the material changes in our financial condition between December 31, 2002 and March 31, 2003 and the material changes in our results of operations and financial condition between the three-month periods ended March 31, 2002 and March 31, 2003. This discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Overview

From inception through the end of 1993, our business consisted principally of the exploration of mineral properties for acquisition and exploration. During 1994, our focus changed as we became engaged in the acquisition, development and testing of mineral processing equipment for use in the recovery of fine, heavy mineral particles including gold, titanium, zircon and environmental contaminants.

In 1996, we acquired all patent rights to the Campbell Centrifugal Jig, since modified and renamed the Altair Centrifugal Jig. Since April 1996, we have acquired mineral leaseholds on approximately 8,700 acres of land in Tennessee. A prefeasibility study issued in July 1998 confirmed the existence of heavy minerals and suggests that the property warrants further exploration. Based on the results of these independent studies, we initiated additional feasibility testing, but have since suspended such testing due to a shortage of working capital.

In November 1999, we acquired all patent applications and technology related to a hydrometallurgical process developed by BHP Minerals International, Inc. ("BHP") primarily for the production of titanium dioxide products from titanium bearing ores or concentrates (the "titanium processing technology") and all tangible equipment and other assets (the "titanium processing assets") used by BHP to develop and implement the titanium processing technology.

The titanium processing technology has potential to produce both titanium pigments, which are commercially traded in bulk, and nanoparticles, which are sold on specialty product markets. The titanium processing technology also has a potential pharmaceutical application, a new active pharmaceutical ingredient that we call RenaZorb(TM) for the treatment of hyperphosphatemia (elevated serum phosphate levels) in patients undergoing kidney dialysis. During 2002, and through the first quarter of 2003, our efforts were directed toward these three applications of the titanium processing technology.

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Liquidity and Capital Resources

We generated $20,277 of sales revenues in the first three months of 2003 but incurred a net loss of $1,316,994. At March 31, 2003, our accumulated deficit was $40,699,982, or an increase of $1,316,994 over the accumulated deficit at December 31, 2002. This increase was due to the net loss for the period.

Our cash and short-term investments increased from $244,681 at December 31, 2002 to $296,148 at March 31, 2003 due principally to the receipt of $595,000 from the sale of common shares and warrants as well as the collection of accounts receivable that were outstanding at December 31, 2002. These increases in cash were partially offset by normal cash operating expenditures.

On August 6, 2002, we adopted an Employee Stock Purchase Plan ("ESPP") which allows employees to purchase common shares through payroll deductions. During the three months ended March 31, 2003, a total of 304,371 common shares were issued under the ESPP, resulting in proceeds of $125,005.

Current and Expected Liquidity.

At March 31, 2003, we had cash and cash equivalents of $296,148, an amount that would be sufficient to fund our basic operations through April 30, 2003. Between April 1, 2003 and the filing date of this report, we sold 1,396,898 common shares and 698,449 warrants to purchase common shares for proceeds of $472,103. This additional cash will allow us to continue our operations through June 30, 2003. After that date, we will require additional financing to provide working capital to fund our day-to-day operations. We will also require additional financing to continue our development work on the titanium processing technology and the Tennessee mineral property.

In light of the decreasing price of, and limited market for, our common shares, our ability to continue to fund our operations primarily through sales of securities is limited, although we expect to generate some funds through offerings of our common stock and warrants to purchase our common stock, and additional exercises of outstanding warrants, during the remainder of 2003. We also expect to generate limited revenues from the sales of nanoparticle products and fees generated from development and testing services provided to potential licensors of our titanium processing technology. As of May 13, 2003, we have no commitments to provide additional financing for periods after May 2003, to purchase titanium dioxide nanoparticles or to license our titanium processing technology.

We also expect to generate revenues through the licensing of our titanium processing technology, specifically the pharmaceutical application of the technology (i.e. RenaZorb(TM)) and the application of our technology for large-scale titanium pigment production. With respect to large-scale titanium pigment production, Altair has completed initial testing for a materials company and has submitted a phase-two proposal for the economic evaluation of a demonstration titanium dioxide pigment plant that could be expanded to a full-scale plant with production capabilities of between 10-20 metric tons of titanium dioxide pigment per year. If the phase-two proposal is accepted in some form, Altair would expect to generate limited revenues in 2003 (but not sufficient to cover monthly operating expenses) in exchange for the testing and development work associated with the evaluation of a demonstration titanium dioxide plant. A licensing agreement associated with a full-scale plant would be expected to generate significant revenues in the long-term, but significant up-front revenues from such an agreement are unlikely.

With respect to RenaZorb(TM), testing of this product using animals was initiated in late 2002 and completed in April 2003, with test results indicating that RenaZorb(TM) has therapeutic potential in animal testing. We are in discussions with four pharmaceutical companies who may be interested in doing further testing and negotiating a license agreement. Altair is uncertain what



the terms of such license agreement would be, but pharmaceutical license agreements often involve up front or staged payments, in addition to royalties once the drug is approved by the FDA and marketed. Based on our understanding of terms of license agreements under similar circumstances, we believe that up-front or early stage payments associated with such a license agreement may be large enough to provide liquidity for Altair throughout 2003, and even permit Altair to report one-time profitability during 2003. We can, however, provide no assurance that we will enter into such a license agreement or that such license agreement would involve any significant up-front payments. If we are unable to enter into a license agreement with respect to RenaZorb(TM) or another product during the first six months of 2003 (or otherwise consummate one or more significant licensing, sale or equity transactions), we will be forced to significantly curtail our operations and expenses, and our ability to continue as a going concern will be uncertain.

## Capital Commitments

The following table discloses aggregate information about our contractual obligations including notes payable, mineral lease payments, facilities lease payments and contractual service agreements, and the periods in which payments are due as of March 31, 2003:

| Contractual Obligations | Total | Less Than 1 Year | 1-3 Years | 4-5 Years | Aft 5 Ye |
|---|---|---|---|---|---|
| Notes Payable | $4,300,000* | $1,300,000 | $ 600,000 | $1,200,000 | $1,2 |
| Mineral Leases | 1,135,021 | 181,410 | 452,868 | 392,055 | 1 |
| Contractual Service Agreements | 494,122 | 344,122 | 100,000 | 50,000 | |
| Total Contractual Obligations | $5,929,143 | $1,825,532 | $1,152,868 | $1,642,055 | $1,3 |

* Before discount of $450,865.

## Critical Accounting Policies and Estimates

Management based this discussion and analysis of our financial condition and results of operations on our consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our critical accounting policies and estimates, including those related to long-lived assets and stock-based compensation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. These judgments and estimates affect the reported amounts



of assets and liabilities and the reported amounts of revenues and expenses during the reporting periods. Changes to these judgments and estimates could adversely affect the Company's future results of operations and cash flows.

- Long-lived assets. Our long-lived assets consist principally of titanium processing assets, the intellectual property (patents and patent applications) associated with it, and a building. At March 31, 2003, the carrying value of these assets was $8,267,239, or

96% of total assets. We evaluate the carrying value of long-lived assets when events or circumstances indicate that an impairment may exist. In our evaluation, we estimate the net undiscounted cash flows expected to be generated by the assets, and recognize impairment when such cash flows will be less than the carrying values. Events or circumstances that could indicate the existence of a possible impairment include obsolescence of the technology, an absence of market demand for the product, and/or continuing technology rights protection.

- Stock-Based Compensation. We have two stock option plans which provide for the issuance of stock options to employees and service providers. Although Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock Based Compensation, encourages entities to adopt a fair-value-based method of accounting for stock options and similar equity instruments, it also allows an entity to continue measuring compensation cost for stock-based compensation using the intrinsic-value method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. We have elected to follow the accounting provisions of APB 25 and to furnish the pro forma disclosures required under SFAS No. 123, but we also issue warrants and options to non-employees that are recognized as expense when issued in accordance with the provisions of SFAS No. 123. We calculate compensation expense under SFAS No. 123 using a modified Black-Scholes option pricing model. In so doing, we estimate certain key variables used in the model. We believe the estimates we use are appropriate and reasonable.

Results of Operations

Our first quarter of 2003 ended March 31, 2003. For the first quarter of 2003, net losses totaled $1,316,994 ($.04 per share) compared to $1,679,531 ($.07 per share) for the same period of 2002. Principal factors contributing to the losses during these periods were the lack of substantial revenue together with the incurrence of operating expenses.

For the first quarter of 2003, we generated revenues of $20,277. Of this amount, $1,581 came from sales of titanium dioxide nanoparticles. The remaining $18,696 of revenues came from fees earned under a services agreement entered into with a materials company in September 2002. Under the terms of the services agreement, we tested the materials company's mineral concentrates in the production of titanium dioxide pigments using our titanium processing technology. The testing is complete and a proposal for further development work has been given to the materials company for evaluation.

We significantly reduced our expenditures for mineral exploration and development in order to conserve cash for operating requirements and development of the titanium processing technology. Accordingly, mineral exploration and



development expenses decreased by $123,474 from $152,188 in the first quarter of 2002 to $28,714 in the first quarter of 2003. We expect our expenditures on mineral exploration and development to remain low throughout 2003.

Our research and development ("R&D") efforts in the first quarter of 2003 were directed principally to pharmaceuticals and titanium pigment process development. R&D expenses increased by $74,184 from $138,609 in the first quarter of 2002 to $212,793 in the same period of 2003, principally as a result of increased staff time being devoted to these R&D projects with a resulting decrease in time spent on mineral exploration and development activities. We expect our R&D expenses for the remainder of fiscal 2003 to remain at levels higher than those of fiscal 2002.

Professional services, which consist principally of legal, consulting and audit expenses, decreased by $41,715 from $226,073 during the first quarter of 2002 to $184,358 in the first quarter of 2003. The decrease is attributable to a decline in consulting expenses of $46,000 resulting principally from decreases in warrants granted to outside service providers.

General and administrative expenses decreased by $50,290 from $608,128 in first quarter of 2002 to $557,838 in the same period of 2003. Sample costs decreased by $22,000 as more effort was placed into development projects and less into sample preparation. In addition, rents decreased by $67,000 due to our purchase, in August 2002, of the 204 Edison Way building that was previously leased. Other general corporate expenses were reduced by a net amount of $5,000. Offsetting these reductions was an increase in investor relations expense of $44,000. In the first quarter of 2003, we paid an investor relations firm 75,000 common shares with a value of $37,500 for assistance with a new investor relations program.

During the second quarter of 2002, we recorded an asset impairment for the jig assets which reduced their depreciable balance to zero. As a result, depreciation is no longer recorded for these assets and depreciation and amortization expense decreased by $67,074 from $285,699 in the first quarter of 2002 to $218,625 in the first quarter of 2003.

Interest expense decreased by $168,125 from $288,298 in the first quarter of 2002 to $120,173 in the first quarter of 2003. The decrease is due to an amendment of our note payable to Doral 18, LLC in November 2002 which, among other things, reduced the balance from $2,000,000 to $1,400,000. The accounting guidance provided by EITF 96-19, Debtor's Accounting for a Modification or Exchange of Debt Instruments, required that the amended note be recorded at its face amount with no discount, whereas the prior note had been recorded at a discount with subsequent amortization of the discount to interest expense. This elimination of the debt discount expense, together with the decrease in note balance, is responsible for the decrease in interest expense from the first quarter of 2002 to the first quarter of 2003.

## Forward-Looking Statements

This Quarterly Report on Form 10-Q (this "Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements can be identified by the use of the forward-looking words "anticipate," "estimate," "project," "likely," "believe," "intend," "expect," or similar words. These statements discuss future expectations, contain projections regarding future developments, operations, or financial conditions, or state other forward-looking information. Statements in this report regarding the ability of the Company to raise working capital necessary to fund our operations, development of the titanium processing technology and assets (including for pharmaceutical use), development of the centrifugal jig and the Tennessee mineral property, and any future acquisition activities are



forward-looking statements. You should keep in mind that all forward-looking statements are based on management's existing beliefs about present and future events outside of management's control and on assumptions that may prove to be incorrect.

Among the key factors that may have a direct bearing on the Company's operating results are various risks and uncertainties including, but not limited to, the following:

- We have not generated any substantial operating revenues and may not ever generate substantial revenues.

- As shown in the consolidated financial statements for the quarter ended March 31, 2003, we incurred a net loss of $1,316,994 for the quarter ended March 31, 2003, and since the date of inception have incurred cumulative net losses of $40,598,899. At March 31, 2003, current liabilities exceeded current assets by $1,710,655. These factors, among others, may raise substantial doubt about the Company's ability to continue as a going concern.

- We may not be able to raise sufficient capital to meet future obligations. As described in this Report, we need to raise additional capital in the short-term and in the long-term in order to continue our basic, day-to-day operations and continue development of the titanium processing technology. If we are unable to obtain sufficient capital, we may be unable to meet future obligations or adequately exploit existing or future opportunities, and may be forced to discontinue operations.

- The sale in the open market of common shares issuable upon the exercise of exchange rights under existing and recently terminated notes, options and warrants may place downward pressure on the market price of our common shares. Speculative traders may anticipate the exercise of exchange rights or warrants and, in anticipation of a decline in the market price of our common shares, engage in short sales of our common shares. Such short sales could further negatively affect the market price of our common shares.

- We have pledged all of the intellectual property, fixed assets and common stock of Altair Nanomaterials, Inc., our second-tier wholly-owned subsidiary, to secure repayment of a Secured Term Note with a face value of $1,400,000 issued on November 21, 2002. Altair Nanomaterials, Inc. owns and operates the titanium processing technology we acquired from BHP in 1999. The Secured Term Note is also secured by a pledge of the common stock and leasehold assets of Mineral Recovery Systems, Inc., which owns and operates our leasehold interests in the Camden, Tennessee area. The Secured Term Note is due and payable on March 31, 2004 (subject to immediate call if the transaction in which the Secured Term Note was issued is not approved at our June 2003 annual meeting). If we default on the Secured Term Note, severe remedies will likely be available to the holder of the Secured Term Note, including immediate seizure and disposition of all pledged assets.

- Our ability to remain listed on the Nasdaq SmallCap Market will depend upon our ability to increase the market price of our common stock to $1.00 per share and to satisfy other listing criteria by the end of a probationary period which expires in June 2003. Delisting from the Nasdaq SmallCap Market may have a significant negative impact on the trading price, volume and marketability of our common shares.

- In the short run, to the extent we generate any significant revenue, we expect such revenue to come through the licensing of our titanium processing technology, specifically the pharmaceutical application of the technology (i.e. RenaZorb(TM)) and the application of our technology for large-scale titanium pigment production. With respect to both possible applications, we have conducted, and/or interested parties have conducted, initial testing, and we are in discussions regarding follow up testing that could reasonably lead to a significant license agreement. However, with respect to both possible applications, we have no formal or informal commitments to license our technology and cannot predict when, or if, any significant licensing agreement will be signed. If we are unable to enter into such a license agreement during the first six months of 2003 (or otherwise consummate one or more significant licensing, sale or equity transactions), we will be forced to significantly curtail our operations and expenses, and our ability to continue as a going concern will be uncertain.

- In the short run, we also plan to use the titanium processing technology to produce $TiO_2$ nanoparticles, and we also intend to license the technology to others. $TiO_2$ nanoparticles and other products we intend to initially produce with the titanium processing technology generally must be customized for a specific application working in cooperation with the end user. We are still testing and customizing our $TiO_2$ nanoparticle products for various applications and have no long-term agreements with end users to purchase any of our $TiO_2$ nanoparticle products. In addition, we have not yet entered into any agreements to license the technology. We may be unable to recoup our investment in the titanium processing technology and titanium processing equipment.

- We have not completed testing of, or developed a production model of, any series of the jig. In part because of our liquidity shortage, we do not expect to complete testing and development of the jig during the coming year and have determined to focus most of our limited resources on the titanium processing technology. We may never develop a production model of the jig.

- Our capital shortage has also forced us to discontinue development work on the Tennessee mineral property and make only those expenditures that are necessary to maintain the property. If additional capital becomes available, we intend to resume the process of conducting feasibility testing of the Tennessee mineral property. Because we are at an early stage of testing, we are unable to provide any assurance that mining of the Tennessee mineral property is feasible. Our test production at the pilot plant, economic analysis and additional exploration activities may indicate any of the following:

  - that the Tennessee mineral property does not contain heavy minerals of a sufficient quantity, quality or continuity to permit any mining;
  - that production costs exceed anticipated revenues;
  - that end products do not meet market requirements or customer expectations;
  - that there is an insufficient market for products minable from the Tennessee mineral property; or
  - that mining the Tennessee mineral property is otherwise not

economically or technically feasible.

In addition to the foregoing, we recommend that you review the risk factors and other cautionary statements contained in the Company's other filings with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K for the year ended December 31, 2002.



Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not have any derivative instruments, commodity instruments, or other financial instruments for trading or speculative purposes, nor are we presently at risk for changes in foreign currency exchange rates.

Item 4. Controls and Procedures

(a) Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within 90 days of the filing date of this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to our Company (including its consolidated subsidiaries) required to be included in our reports filed or submitted under the Exchange Act

(b) There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

During the quarter ended March 31, 2003, we issued 75,000 common shares to a consultant in a private placement pursuant to the terms of a contract under which the consultant will provide consultant services to the Company and. 35,000 common shares to a second consultant in a private placement pursuant to the terms of a contract under which the consultant will provide advisory services to the Company. Both such transactions were effected in reliance upon the exemption for sales of securities not involving a public offering, as set forth in Section 4(2) of the Securities Act based upon the following: (a) each consultant had such background, education, and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the securities; (b) there was no public offering or general solicitation with respect to the offering, and each consultant confirmed that it was acquiring the securities for its own account and not with an intent to distribute such securities; (c) each consultant was provided with a copy of the most recent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K of the Company and all other information requested by the consultant with respect to the Company; (d) each consultant acknowledged that all securities being purchased were "restricted securities" for purposes of the Securities Act, and agreed to transfer such securities only in a transaction registered with the SEC under the Securities Act or exempt from registration under the Securities Act; and (e) a legend was placed on the certificates and other documents representing each such security stating that it was restricted and could only be transferred if subsequently registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

In addition, during the quarter ended March 31, 2003, we sold 1,750,000 common shares and 1,750,000 Series 2003B warrants in exchange for aggregate consideration of $595,000 in a private placement to a single institutional accredited investor. The warrants have an exercise price of $1.00 per share and expire in March 2008. Such common shares and warrants were offered and sold in



reliance upon the exemption for sales of securities not involving a public offering, as set forth in Section 4(2) of the Securities Act and Rule 506 promulgated under the Securities Act based upon the following: (a) the investor represented and warranted to the Company that it was an institutional "accredited investor," as defined in Rule 501 of Regulation D promulgated under the Securities Act and had such background, education, and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the securities; (b) there was no public offering or general solicitation with respect to the offering; the investor was any existing shareholder of the Company and the investor represented and warranted that it was acquiring the securities for its own account and not with an intent to distribute such securities; (c) the investor was provided with an offering summary, a copy of the most recent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K of the Company and all other information requested by the investor with respect to the Company, (d) the investor acknowledged that all securities being purchased were "restricted securities" for purposes of the Securities Act, and agreed to transfer such securities only in a transaction registered with the SEC under the Securities Act or exempt from registration under the Securities Act; and (e) a legend was placed on the certificates and other documents representing each such security stating that it was restricted and could only be transferred if subsequently registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

Item 6. Exhibits and Reports on Form 8-K

a) See Exhibit Index attached hereto.

b) No reports on Form 8-K have been filed during the first quarter of 2003.

SIGNATURES

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

Altair Nanotechnologies Inc.

| | | |
|---|---|---|
| May 14, 2003 | By: | /s/ William P. Long |
| Date | | William P. Long, Chief Executive Officer |

| | | |
|---|---|---|
| May 14, 2003 | By: | /s/ Edward H. Dickinson |
| Date | | Edward H. Dickinson, Chief Financial Officer |

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CERTIFICATIONS

I, William P. Long, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Altair Nanotechnologies Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal

controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ William P. Long

William P. Long
Chief Executive Officer

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I, Edward Dickinson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Altair Nanotechnologies Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Edward H. Dickinson

Edward H. Dickinson
Chief Financial Officer

EXHIBIT INDEX

| Exhibit No. | Exhibit | Incorporated by Referen |
|---|---|---|
| 3.1 | Articles of Continuance | Incorporated by referenc Report on Form 8-K filed July 18, 2002 |
| 4.1 | Bylaw No. 1 | Incorporated by referenc Report on Form 8-K filed July 18, 2002 |
| 4.2 | Form of 2003B Warrant | Filed herewith |
| 10.1 | Amendment No. 1 to the Registrant 2002 Wage Stock Purchase Plan | Incorporated by referenc Registration Statement o no. 333-104435, filed wi 2003 |
| 99.1 | Certification of Chief Executive Officer | Filed herewith |
| 99.2 | Certification of Chief Financial Officer | Filed herewith |