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STELAX INDUSTRIES LTD  
Form 10-Q  
August 28, 2002

U.S. Securities and Exchange Commission  
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended June 30, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-14219

Stelax Industries Ltd.

-----  
(Exact name of small business issuer as specified in its charter)

British Columbia

None

-----  
(State or other jurisdiction  
of incorporation or organization)

(IRS Employer Identification No.)

4287-A Belt Line Rd. #195, Addison, TX

75001

-----  
(Address of principal executive offices)

(Zip Code)

(972) 233-6041

-----  
(Registrant's telephone number)

4004 Beltline Road, Suite 107, Dallas TX 75244

-----  
(Former name, former address and former fiscal year, if changed since last  
report)

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 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 \_\_\_\_

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes  
of common equity, as of June 30, 2002: 43,184,775

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Stelax Industries Ltd.  
CONSOLIDATED BALANCE SHEETS  
(Presented in United States Dollars)

ASSETS

	Jun-30 2002 ----- (Unaudited)	Mar 20 -----
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,412	\$
Note Receivable	141,480	
Inventory-Raw Materials		
Work in process	0	
Finished Goods	0	
Accounts Receivable-Trade (Allowance for doubtful accounts at June 30 and March 31 2002, \$0 and \$0 respectively)	0	
Receivables from related parties	3,000	
Prepaid and other current assets	10,687	
	-----	-----
Total Current Assets	159,579	
PROPERTY & EQUIPMENT - AT COST		
Plant & Machinery	0	
Building	0	
Land	0	
	-----	-----
Accumulated Depreciation	0	
Total Property & Equipment	0	
	-----	-----
INTANGIBLE ASSETS ( Accumulated amortisation of \$ 0 and \$ 0 at June 30 and March 31, 2002 respectively )	0	
OTHER ASSETS	82,357	
	-----	-----
TOTAL ASSETS	241,936 =====	=====

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Stelax Industries Ltd.  
CONSOLIDATED BALANCE SHEETS  
(Presented in United States Dollars)

LIABILITIES AND STOCKHOLDERS EQUITY

	Jun-30 2002	Mar 20
	----- (Unaudited)	-----
CURRENT LIABILITIES		
Accounts Payable	\$ 288,641	\$
Payable to related parties	1,152,064	1,
Accrued interest	516,899	
Note Payable - short term	3,645,833	3,
	-----	-----
	5,603,437	5,
NOTE PAYABLE - LONG TERM		
STOCKHOLDERS EQUITY Common stock - 50,000,000 shares authorised, no stated parvalue; issued and outstanding 43,184,775 & 43,184,775 shares at June 30 and March 31, 2002 respectively.		
	25,281,717	25,
Cumulative translation adjustments	83,684	
Accumulated deficit	(30,726,902)	(30,
	-----	-----
Total Stockholders Equity	(5,361,501)	(5,
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	241,936	
	=====	=====

Stelax Industries Ltd.  
CONSOLIDATED STATEMENT OF OPERATIONS  
(Presented in United States Dollars)  
Unaudited

3 Months Ended	
Jun-30 2002	Jun 20
-----	-----

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Sales	\$	0	\$
Cost of Sales		0	
Gross Loss		0	(
		-----	-----
Selling, general and administrative Expenses (including depreciation and amortisation of \$ 0 and \$ 160048 for the 3 months ending June 30, 2002 and 2001 respectively)		197,371	
		-----	-----
Loss from operations		(197,371)	(
Other Income (expense):			
Interest Income		0	
Interest Expense		(93,432)	(
		-----	-----
Net loss		(290,803)	(
		=====	=====
Weighted average shares of common stock		41,220,912	39,
		=====	=====
Net loss per share	\$	(0.007)	\$
		=====	=====

Stelax Industries Ltd.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Presented in United States Dollars)  
Unaudited

	3 Months Ended	
	Jun-30 2002	Jun 20
	-----	-----
OPERATING ACTIVITIES		
Net Loss	\$ (290,803)	\$ (
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation & amortisation	0	
Foreign currency transaction gain (loss)	0	
Changes in operating assets and liabilities :		
Decrease (increase) in receivables	0	(
Decrease (increase) in inventory & other assets	9,890	
Increase ( decrease) in accounts payable and	281,223	
	-----	-----
accrued interest		
Net cash (used) provided by operating activities	310	

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INVESTING ACTIVITIES	
Purchase of property, equipment and intangibles	0
	-----
Net cash used by investing activities	0
FINANCING ACTIVITIES	
Common stock issue	0
Convertible note payable issue	-
Note payable issue (payment)	0
	-----
	0
Increase (decrease) in cash and cash equivalents	310
Cash & cash equivalents at beginning of period	4,102
	-----
Cash & Cash Equivalents at end of period	4,412
	=====
Interest Paid	0
Income Taxes paid	0

STELAX INDUSTRIES LTD.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Presented in United States Dollars)  
 Unaudited

(1) INTERIM FINANCIAL STATEMENTS

In the opinion of management, the interim financial statements reflect all adjustments necessary to a fair statement of the results for the interim periods presented. The results for the three months ended June 30, 2002 are not necessarily indicative of results to be expected for the entire year. These financial statements, notes and analyses should be read in conjunction with the Company's annual financials for the fiscal year ended March 31, 2002.

(2) LOSS PER SHARE

Loss per share was based on the weighted average number of common shares of 41,220,912 and 39,299,280 outstanding during the three month period ended June 30, 2002 and 2001, respectively.

(3) INCOME TAXES

The Company has net operating loss carry forwards of approximately \$420,000 for Canada and \$0 for the U.K.

(4) RELATED PARTY TRANSACTIONS

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As of June 30, 2002 funds are owed by the Company totaling \$ 1,152,064 to the President of the Company and his affiliates. As of June 30, 2001, funds owed by the Company totalled \$1,113,614 to the President of the Company and his affiliates.

As of June 30, 2002, the Company owed the President of the Company \$ 970,312. As of March 31, 2002, the Company owed the President of \$906,065.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Forward-Looking Information

The Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of the Form 10-Q contain forward-looking information. The forward-looking information involves risks and uncertainties that are based on current expectations, estimates, and projections about the Company's business, management's beliefs and assumptions made by management. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", and variations of such words and similar expressions are intended to identify such forward-looking information. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking information due to numerous factors, including, but not limited to, availability of financing for operations, successful performance of internal operations, impact of competition and other risks detailed below as well as those discussed elsewhere in this Form 10-QSB and from time to time in the Company's Securities and Exchange Commission filings and reports. In addition, general economic and market conditions and growth rates could affect such statements.

### General

For the fiscal years ended March 31, 1999, and March 31, 2000, the Company developed the market for its Nuovinox product, a product that clads rebar with stainless steel. Much of this product development involved extensive testing to determine the product's utility for use in highways and bridges. This testing occurred principally in the United States for federal and state transportation authorities. By March 31, 2000, this testing process was completed sufficiently to commence sales, and the Company's assets were, at that time, unencumbered.

In July 2000, the Company's United States subsidiary entered into a loan and security agreement with Banc of America Commercial Finance Corporation (the "Loan Agreement") whereby the Company obtained a term loan as well as a revolving credit and credit accommodation. The maximum amount that can be borrowed under the Loan Agreement is \$5,750,000.

The Company shipped some product prior to entering into the Loan Agreement, but the proceeds of the Loan Agreement were used to refine production processes so that the Company could begin volume productions.

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The Registrant's U.K. subsidiary commenced quantity production in the quarter ended June 2001 but was unable to increase production for sufficiently large volumes to obtain profitability or service debt. In March 2002 the Registrant's U.K. subsidiary was placed into receivership and the receiver acquired the assets of the U.K. subsidiary, and the assets were subsequently transferred to Wells Fargo Business Credit, Inc. The Registrant's operations thus ceased.

The Registrant has entered into a letter of intent with Wells Fargo Business Credit, Inc. to acquire for \$1,750,000 all of the assets of Wells Fargo Business Credit Inc. The letter of intent also contemplates granting to Wells Fargo Business Credit Inc. a warrant to purchase 500,000 shares of the Registrant's Common Stock. The Registrant anticipates entering in August 2002 into a formal agreement to fund the reacquisition of these assets and obtain operating capital and commence production soon thereafter.

Quarter ended June 30, 2002, compared to quarter ended June 30, 2001

The Company's revenues were \$ zero in the quarter June 30, 2002 due to the U.K. subsidiary being in receivership and not operational under the control of Stelax Industries Ltd. Revenues in the quarter June 30, 2001 had been \$ 266,497.

The Company's losses arising within the remainder of the Group amounted to \$290,803 of which \$ 93,432 was interest expense. In the quarter June 30, 2001 the respective figures were loss \$ 784,768 and \$ 106,965 interest.

Quarter ended June 30, 2001, compared to quarter ended June 30, 2000

The Company's revenues increased to \$266,497 in the later quarter compared to revenues of \$133,169 in the earlier period. The Company's revenues for the quarter ended June 30, 2001, reflect the first successful volume production of the Nuovinox product. Revenues in each of the quarters since June 30, 2000, have been significantly below \$100,000, and revenues for fiscal 2001, which ended March 31, 2001, were approximately \$300,000. The revenues for the quarter ended June 30, 2001, reflect the Company's ability to produce Nuovinox successfully to meet demand for the product.

Nonetheless, the Company lost \$784,768 in the first quarter of fiscal 2002. Revenues only began to occur in the later part of the quarter. Consequently, labor costs and other fixed costs that the Company had in place throughout the quarter were absorbed by a small relatively small amounts of revenue. General and administrative expenses increased significantly as the Company began to staff to levels required to support full production. Finally, the Company incurred significant interest expense of approximately \$106,000 in the June 30, 2001, quarter, essentially interest expense on the Loan Agreement.

### Liquidity and Capital Resources

The proceeds from the Loan Agreement have been used to fund operational losses to extent necessary to cover the start up period for Nuovinox sales and to finance inventory and receivables to the extent that the Company need funds in excess of borrowing under the Loan Agreement for inventory and receivables.

However, by the end of fiscal 2001 on March 31, 2001, the Company had used the maximum amount available under the Loan Agreement.

Because of the losses incurred in fiscal 2001, at March 31, 2001, the Company was in technical default under the Loan Agreement. During the first quarter of

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fiscal 2002, the Company's operations were funded by sales of securities and sales of product. The Company remained in technical default under the Loan Agreement at March 31, 2002.

The Company's audit report for the fiscal year ended March 31, 2002, is qualified because of the concern over the Company's ability to continue as a going concern.

### DECONSOLIDATION OF STELAX (U.K.)

Under generally accepted accounting principles consolidation is generally required for investments of more than 50% of the outstanding voting stock of an investee except when control is not held by the majority owner. Under these principles, bankruptcy represents a condition which can preclude consolidation as control rests with the bankruptcy court, rather than the majority owner.

March 7, 2002 an Administrative Receiver was appointed to Stelax (U.K.) pursuant to a debenture instrument executed over the whole of the assets of the company in favour of Bank of America Finance Corporation dated June 30 2000 and assigned to Wells Fargo Business Credit Inc on April 20 2001. Accordingly from March 7, 2002 control rests with the Receiver not Stelax Industries.

The results of Stelax (U.K.) have been consolidated up to March 7, 2002 thereafter Stelax (U.K.) has been reported using the cost method. At March 7, 2002 Stelax (U.K.) had net assets of \$7,111,166 principally consisting of plant and equipment at the Aberneath facility in South Wales, United Kingdom. However Stelax Industries does not expect to recover any monies from the Receiver in respect of this investment. This investment has therefore been written off, and a loss of \$7,111,166 has been recorded in the income statement for the year to March 31, 2002.

### Inflation

The Company's operations may be impacted by the effects of inflation and changing prices as increased prices may reduce the demand for steel products. Additionally, the price of nickel has direct impact on the Company as nickel is an integral component to the price of the stainless steel utilized in Nuovinox.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company does not engage in any hedging activities. In particular, the Company does not hedge its sales for currency fluctuations, and, accordingly, does not acquire market risk sensitive instruments. Over the last two fiscal years, market risks have been negligible because of the small amount of operations in which the Company has engaged.

The Company's primary market risk is anticipated to be a currency exchange rate risk and the Company does not, at the present time, anticipate engaging in management of that risk. For the next fiscal year, the Company's operations will be principally conducted in the United Kingdom with sales anticipated in the United States and Canada. In addition to currency market risk resulting from trade accounts receivable, the Company's loan with Bank of America is denominated in U.S. Dollars. The amounts available to the Company under the Bank of America loan agreement are principally based upon assets located in the United Kingdom, and a large increase in the value of the Dollar relative to the



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Pound could diminish the amounts that could be available under that loan agreement. A significant increase in the Pound relative to Dollar would make United States trade receivables worth less in the United Kingdom, decreasing profit margins for products produced in the United Kingdom and sold in the United States.

PART - II

Item 6. Exhibits and Reports on Form 8-K

None

SIGNATURES

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

Stelax Industries, Ltd.

Dated: August 23, 2002

/s/ Harmon S. Hardy

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Harmon S. Hardy, President and  
Principal Financial Officer