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STELAX INDUSTRIES LTD  
Form 10-Q  
August 21, 2001

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, 2001

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 (IRS Employer Identification No.)  
of incorporation or organization)

4004 Beltline Road, Suite 107, Dallas TX

75244

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

(Zip Code)

(972) 233-6041

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

-----  
(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, 2001: 39,434,775

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Stelax Industries Ltd.

CONSOLIDATED BALANCE SHEETS  
(Presented in United States dollars)

ASSETS

	June 30, 2001 unaudited	March 31, 2001
	-----	-----
CURRENT ASSETS:		
Cash	\$ 211,763	\$ 800
Note receivable	141,480	141
Inventory-Raw materials	46,946	23
Work in process	23,438	35
Finished goods	52,965	121
Accounts Receivable-Trade, net (allowance for doubtful accounts at June 30 and March 31, 2001, \$0 and \$0, respectively)	256,188	111
Prepays and other current assets	29,371	45
	-----	-----
Total Current Assets	762,151	1,280
PROPERTY & EQUIPMENT-AT COST:		
Plant and Machinery	9,497,547	9,489
Building	848,843	848
Land	270,136	270
	-----	-----
Accumulated Depreciation	10,616,526 (2,302,928)	10,608 (2,186)
	-----	-----
Total Property and Equipment	8,313,598	8,422
INTANGIBLE ASSETS (accumulated amortization of \$299,311 and \$276,556 at June 30 and March 31, 2001, respectively)	543,380	556
OTHER ASSETS	182,478	201
	-----	-----
TOTAL ASSETS	\$ 9,801,607	\$ 10,470
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 732,092	\$ 767
Payable to related parties	1,353,414	960
Accrued interest	29,840	37
Note payable--short term	3,854,166	4,166
	-----	-----

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Total Current Liabilities	5,969,512	5,932
STOCKHOLDERS' EQUITY:		
Common Stock - 50,000,000 shares		
Authorized, no stated par value ;		
issued and outstanding 39,434,775 and 39,240,175 shares		
at June 30 and March 31, 2001, respectively	24,269,342	24,183
Cumulative translation adjustments	215,852	222
Accumulated deficit	(20,653,099)	(19,868)
	-----	-----
Total Stockholders' Equity	3,822,095	4,537
	-----	-----
TOTAL LIABILITIES AND		
STOCKHOLDERS' EQUITY	\$ 9,801,607	\$ 10,470
	=====	=====

See notes to financial statements.

Stelax Industries Ltd.

CONSOLIDATED STATEMENTS OF OPERATIONS  
(Presented in United States dollars)  
Unaudited

	Three Months Ended	
	June 30, 2001	Ju
	-----	-----
Sales	\$ 266,497	\$
Cost of sales	492,977	
	-----	-----
Gross loss	(226,480)	
Selling general and administrative		
Expenses (including depreciation		
and amortization of \$160,048 and		
\$126,858 for the period ended		
June 30, 2001 and 2000, respectively)	452,912	
	-----	-----
Loss from operations	(679,392)	
Other income (expense):		
Interest income	1,589	
Interest expense	(106,965)	
	-----	-----
Net loss	\$ (784,768)	\$
	=====	=====

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Weighted average shares of common stock	39,299,280	3
	=====	=====
Net loss per share	\$ (0.02)	\$
	=====	=====

See notes to financial statements

Stelax Industries Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Presented in United States dollars)  
Unaudited

	Three Months End	
	-----	
	June 30,	
	2001	
	-----	
OPERATING ACTIVITIES		
Net loss	\$ (784,768)	\$

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Adjustments to reconcile net loss		
to net cash provided by operating activities:		
Depreciation and amortization		160,048
Foreign currency transaction gain (loss)		(6,280)
Changes in operating assets and liabilities:		
Decrease (increase) in receivables		(144,206)
Decrease (increase) in inventory and other assets		72,218
Increase (decrease) in accounts payable and accrued interest		349,377
		-----
Net cash (used) provided by operating activities		(353,611)
INVESTING ACTIVITIES		
Disposal (purchase) of property, equipment and intangibles		(8,202)
		-----
Net cash used by investing activities		(8,202)
FINANCING ACTIVITIES		
Note payable issue (repayment)		(312,500)
Net proceeds from Common Stock		85,380
		-----
Net cash provided by (used in) financing activities		(227,120)
Increase (decrease) in cash and cash equivalents		(588,933)
Cash and cash equivalents at beginning of period		800,696
		-----
Cash and cash equivalents at end of period	\$	211,763
		=====
Interest paid	\$	-
		=====
Income taxes paid	\$	-
		=====

See notes to financial statements

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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, 2001 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, 2001.

(2) LOSS PER SHARE

Loss per share was based on the weighted average number of common shares of 39,299,280 and 37,521,442 outstanding during the three month period ended June 30, 2001 and 2000, respectively.

(3) INCOME TAXES

The Company has net operating loss carry forwards of approximately \$420,000 for Canada and \$6,200,000 for the U.K.

(4) RELATED PARTY TRANSACTIONS

As of June 30, 2001, funds are owed by the Company totaling \$1,113,614 to the President of the Company and his affiliates. As of March 31, 2001, the Company owed the President of \$751,134. The president and a director of the subsidiary are owed \$239,800 and \$209,194 as of June 30, 2001 and March 31, 2001, respectively.

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

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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.

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. The Company anticipates that commencing in the second quarter of fiscal 2002, production and delivery rates will be sufficient to fund operations and service debt. The Company is seeking additional equity funding, nonetheless, to make certain that operations are adequately supported.

Because of the losses incurred in fiscal 2001, at March 31, 2001, the Company

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was in technical default under the Loan Agreement. During the first quarter of fiscal 2002, the Company's operations were funded by sales of securities and sales of product.

The Company's audit report for the fiscal year ended March 31, 2001, is qualified because of the concern over the Company's ability to continue as a going concern.

### 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 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



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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 20, 2001

/s/ Harmon S. Hardy

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Harmon S. Hardy, President and  
Principal Financial Officer