STELAX INDUSTRIES LTD
Form 10-Q
February 20, 2002

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

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 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 of incorporation or organization)	(IRS Employer Identification No.)
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 December 31, 2001: 42,772,775

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.Stelax Industries Ltd

CONSOLIDATED BALANCE SHEETS
(Presented in United States dollars)

ASSETS

	December 31, 2001 Unaudited	March 31, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 15,075	$ 800,696
Note Receivable	141,480	141,480
Inventory-Raw materials	98,125	23,851
Work in process	14,693	35,128
Finished goods	30,607	121,530
Accounts Receivable-Trade, net (allowance for doubtful accounts at Dec. 31 and March 31, 2001, $0 and $0, respectively)	76,802	111,981
Prepaids and other current assets	9,839	45,690
Total Current Assets	386,621	1,280,356
PROPERTY & EQUIPMENT-AT COST:		
Plant & Machinery	9,503,575	9,489,345
Building	848,843	848,843
Land	270,136	270,136
	10,622,554	10,608,324
Accumulated Depreciation	(2,546,172)	(2,186,221
Total Property & Equipment	8,076,382	8,422,103
INTANGIBLE ASSETS (accumulated amortization Of $346,736 and $276,556 at Dec. 31 and March 31, 2001, respectively)	503,225	566,135
OTHER ASSETS	131,405	201,804
TOTAL ASSETS	$ 9,097,633	$ 10,470,398

See notes to financial statements

CONSOLIDATED BALANCE SHEETS
(Presented in United States dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2001 Unaudited	March 31, 2001
CURRENT LIABILITIES:		
Accounts payable	$ 1,569,662	$ 767,707
Payable to related parties	835,990	960,328
Accrued interest	71,763	37,934
Note payable--short term	3,645,833	1,250,000
Total Current Liabilities	6,123,248	3,015,969
NOTE PAYABLE--LONG TERM	-	2,916,666
STOCKHOLDERS' EQUITY:		
Common stock - 50,000,000 shares authorized, no stated par value; issued and outstanding 42,772,775 & 39,240,175 shares at Dec 31 & March 31, 2001, respectively.	25,182,717	24,183,962
Cumulative translation adjustments	208,609	222,132
Accumulated deficit	(22,416,941)	(19,868,331
Total Stockholders' Equity	$ 2,974,385	$ 4,537,763
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,097,633	$ 10,470,398

See notes to financial statements

Stelax Industries Ltd

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

	Nine Months Ended	
	December 31, 2001	December 2000
OPERATING ACTIVITIES		
Net loss	$ (2,548,610)	$ (2,
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation & amortization	491,888	
Foreign currency transaction gain (loss)	(12,931)	
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	35,179	
Decrease (increase) in inventory & other assets	74,272	(
Increase (decrease) in accounts payable & accrued interest	711,446	(1,
Net cash (used) provided by operating activities	(1,248,756)	(3,
INVESTING ACTIVITIES		
Purchase of property, equipment & intangibles	(14,787)	(
Net cash used by investing activities	(14,787)	(
FINANCING ACTIVITIES		
Common stock issue	998,755	
Note payable issue (payment)	(520,833)	4,
	477,922	4,
Increase (decrease) in cash and cash equivalents	(785,621)	1,
Cash & cash equivalents at beginning of period	800,696	
Cash & cash equivalents at end of period	$ 15,075	$ 1,
Interest paid	$ 230,270	$
Income taxes paid	$ -	$

See notes to financial statements.

Stelax Industries Ltd

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

	Three Months Ended		NineMonths E	
	December 31, 2001	December 31, 2000	December 31, 2001	De
Sales	$ 35,007	$ 39,029	$ 567,842	$
Cost of sales	192,880	300,199	1,336,441	
Gross loss	(157,873)	(261,170)	(768,599)	
Selling, general and administrative Expenses (including depreciation and amortization of $491,888 and $424,602 for the nine months ending Dec. 31, 2001 and 2000, respectively)	465,756	536,603	1,479,258	
Loss from operations	(623,629)	(797,773)	(2,247,857)	(
Other income (expense):				
Interest income	-	36,913	2,503	
Interest expense	(98,491)	(150,302)	(303,256)	
Net loss	$ (722,120)	$ (911,162)	$(2,548,610)	$ (
Weighted average shares of common stock	42,750,492	37,798,616	42,140,061	3
Net loss per share	$(0.02)	$(0.02)	$(0.06)	

See notes to financial statements.

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 nine months ended December 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 42,140,061 and 37,521,442 outstanding during the nine month period ended December 31, 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 December 31, 2001, funds are owed by the Company totaling $931,391 to the President of the Company and his affiliates. As of March 31, 2001, the Company owed the President $751,134. The president and a director of the subsidiary are owed $92,919 and $209,194 as of December 31, 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 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. However, despite having a significant market for the product, the Company has been unable to achieve efficient volumes with the its current capital resources. Without additional capital, the company lacks the financial resources to fund inventory and receivables as well as invest in people and equipment that would make its processes economically efficient.

On October 30, 2001, the Company announced that it had entered a letter of intent with Mitsubishi International Corporation to form a joint venture in the development and distribution of the Nuovinox line of products. Under the terms of the letter of intent Mitsubishi would provide global distribution of Stelax's existing products and its to be developed product lines and aid in the establishment of manufacturing facilities in the U. S. and elsewhere in the world. Mitsubishi would also assist in general and strategic planning for the growth and development of Stelax and its product lines.

Nine months ended December 31, 2001, compared to nine months ended December 31, 2000

The Company's revenues increased to $657,842 in the later period compared to revenues of $228,022 in the earlier period. Revenues had only begun to occur in the later part of the first quarter. Consequently, labor costs and other fixed costs that the Company had in place throughout the quarter were absorbed by 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 $303,256 in the first nine months of fiscal 2002, essentially interest expense on the Loan Agreement.

6

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 needs 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 has had to reduce staffing and limit production in the second quarter of fiscal 2002 due principally to the unavailability of capital to expand production and meet demand. 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 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

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: February 20, 2002

/s/ Harmon S. Hardy

Harmon S. Hardy, President and
Principal Financial Officer