STELAX INDUSTRIES LTD
Form 10-Q
February 20, 2001

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, 2000

[ ] 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 February 14, 2001: 39,021,442

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Stelax Industries Ltd.

CONSOLIDATED BALANCE SHEETS
(Presented in United States dollars)

ASSETS

	December 31, 2000 unaudited	Marc 20
CURRENT ASSETS:		
Cash	$ 1,643,425	$ 44
Note receivable	141,480	141
Inventory-Raw materials	9,290	10
Work in process	42,761	26
Finished goods	152,165	118
Accounts Receivable Trade (allowance for doubtful accounts at Dec. 31 and March 31, 2000, $0 and $0, respectively	83,560	62
Prepaids and other current assets	47,519	81
Total Current Assets	2,120,200	485
PROPERTY & EQUIPMENT-AT COST		
Plant & Machinery	9,419,291	9,290
Building	848,843	848
Land	270,136	270
	10,538,270	10,409
Accumulated Depreciation	(2,097,214)	(1,753
Total Property & Equipment	8,441,056	8,656
INTANGIBLE ASSETS (accumulated amortization of $256,816 and $218,343 at Dec. 31 and March 31, 2000, respectively)	593,408	556
OTHER ASSETS	267,181	29
TOTAL ASSETS	$ 11,421,845	$ 9,727

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 797,746	$ 1,546
Payable to related parties	801,661	1,265

Note payable--short term	1,250,000	
Total Current Liabilities	2,849,407	2,811
NOTE PAYABLE--LONG TERM	3,254,166	
STOCKHOLDERS' EQUITY:		
Common Stock - 50,000,000 shares Authorized, no stated par value ; issued and outstanding 39,021,442 and 37,521,442 shares at Dec. 31 and March 31, 2000, respectively	24,061,222	23,686
Cumulative translation adjustments	280,280	195
Accumulated deficit	(19,023,230)	(16,965
Total Stockholders' Equity	5,318,272	6,916
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 11,421,845	$ 9,727

See notes to financial statements.

Stelax Industries Ltd.

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

	Three Months Ended		N
	December 31, 2000	December 31, 1999	December 3 2000
Sales	$ 39,029	$ (6,372)	$ 228,0
Cost of sales	300,199	149,740	652,0
Gross loss	(261,170)	(156,112)	(423,9
Selling general and administrative Expenses (including depreciation and amortization of $424,602 and $407,613 for the nine months ending Dec. 31, 2000 and 1999, respectively)	536,603	339,747	1,352,9
Loss from operations	(797,773)	(495,859)	(1,776,9
Other income (expense):			
Interest income	36,913	-	55,4
Interest expense	(150,302)	(17,699)	(335,9

Net loss	$ (911,162)	$ (513,558)	$ (2,057,4
Weighted average shares of common stock	37,798,616	36,115,404	37,614,1
Net loss per share	$ (0.02)	$ (0.01)	$ (0.0

See notes to financial statements

Stelax Industries Ltd.

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

	Nine Months End	
	December 31, 2000	
OPERATING ACTIVITIES		
Net loss	$ (2,057,472)	$
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation & amortization	424,602	
Foreign currency transaction gain (loss)	84,601	
Changes in operating assets and liabilities:		

Decrease (increase) in receivables	(21,113)	
Decrease (increase) in inventory & other assets	(295,134)	
Increase (decrease) in accounts payable & accrued interest	(1,212,276)	
Net cash (used) provided by operating activities	(3,076,792)	
INVESTING ACTIVITIES		
Purchase of property, equipment & intangibles	(203,609)	
Net cash used by investing activities	(203,609)	
FINANCING ACTIVITIES		
Note payable issue/conversion	4,504,166	
Common stock issue	375,000	
Net cash provided by financing activities	4,879,166	
Increase (decrease) in cash and cash equivalents	1,598,765	
Cash & cash equivalents at beginning of period	44,660	
Cash & cash equivalents at end of period	$ 1,643,425	$
Interest paid	$ 241,739	$
Income taxes paid	$ -	$

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 31, 2000 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, 2000.

(2) LOSS PER SHARE

Loss per share was based on the weighted average number of common shares of 37,614,169 and 36,039,981 outstanding during the nine month period ended December 31, 2000 and 1999, 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, 2000, funds are owed by the Company totaling $607,885 to the President of the Company and his affiliates. Of this amount, $379,348 represents draws and accrued interest upon the line of credit established by the President on behalf of the Company. As of March 31, 2000, the Company owed the President of $1,049,172. The president and a director of the subsidiary are owed $193,776 and $215,896 as of December 31, 2000 and March 31, 2000, respectively.

On December 15, 2000, the President of the Company and an affiliate and the president of the subsidiary converted part of the debt owed to each into common stock of the Company. The conversion resulted in new shares of 1,500,000 and debt reduction of $375,000.

(5) FINANCING

On June 30, 2000, the Company closed on a financing agreement with Bank of America. The loan was funded in early July. As part of the financing arrangement, Bank of America received 160,000 options on the Company's common stock.

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.

Liquidity and Capital Resources

Since fiscal 1998 the Company has had to fund substantial losses as the Company determined to cease sale of stainless steel and develop the market for its Nuovinox products. In fiscal 1999 the Company incurred a loss of $3,150,498 and in fiscal 2000 incurred a loss of $2,279,926. Because the Company incurs a substantial amount of depreciation and amortization, $506,050 in fiscal 1999 and $538,673 in fiscal 2000, the cash losses for fiscal 1999 and 2000 were approximately $2,640,000 and $1,740,000, respectively.

In fiscal 1999 the cash loss of approximately $2,640,000 was principally funded through the liquidation of current assets. Between March 31, 1998, and March 31, 1999, the Company's cash position decreased from $852,892 to $42,973, receivables decreased from $597,426 to $19,505 and inventories decreased from $948,093 to $195,663, a reduction in current assets of $2,140,271. The amount of the cash loss that was funded through the liquidation of current assets as well as some increases in property were funded through sales of common stock that netted $726,670.

In fiscal 2000 the cash loss of approximately $1,740,000 was funded through financing activities. A related party loaned the Company approximately $1,000,000 and the Company issued common stock, the sale of which resulted in net proceeds to the Company of approximately $800,000.

Total equity at the end of fiscal 1999 was $8,402,251 and at the end of fiscal 2000 was $6,916,143. At the end of both fiscal 1999 and 2000, the Company had no long-term debt.

In fiscal 1999 and 2000 the Company developed the market for its Nuovinox product, much of which involved extensive testing for United States federal and state transportation authorities to demonstrate the utility of the Nuovinox product in bridges and highways. By the end of fiscal 2000, this process was sufficiently complete to begin sales. With the Company's plant facilities 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 Revolving Credit and Credit Accommodations. The maximum amount that can be borrowed under the Loan Agreement is $5,750,000.

The Term Loan limits the amount that can be borrowed pursuant thereto to the lesser of $5,000,000 or 80% of the auction sales value of certain equipment, as defined, at the Company's Aberneath, South Wales, UK facility.

The Revolving Credit and Credit Accommodation provides, subject to certain provisions, that the Company may borrow up to 50% of the value, as defined, of the Company's inventory as well as 50% of the amount of certain receivables, as defined. Borrowing for inventory cannot exceed $750,000 and borrowing against receivables cannot exceed $500,000.

The term loan is repaid monthly and is amortized over a 48 month period, bearing interest at prime rate plus 2.25%. The inventory and accounts loan mature 36 months after the date of the agreement and bear interest, payable monthly, at prime rate plus 2.25%.

In connection with the Loan Agreement the Company granted a warrant to Bank of America Commercial Finance Corporation to purchase up to 160,000 shares of common stock.

The proceeds from the term loan will be 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 will need funds in excess of borrowing under the Term Loan for inventory and receivables.

Results of Operations

General

The Company's results of operations reflect the transition from dormant operations to fulfilling a backlog of orders. Beginning in the fourth quarter of the Company's current fiscal year, which ends March 31, 2001, the Company anticipates that its sales will start to increase. Recognition of these revenues can be subject to a variety of factors, particular since most of these sales will be to those contracting for sales to governmental agencies. These sales are subject to funding and the release of funds. Hence the timing of the release of these funds for sales could cause significant variation in revenues from quarter to quarter, with the variation of these revenues being sharper when the Company is smaller. Further, these contracts are large with the Company having a few large contracts rather than many small contracts. The effect of large contracts and any delay or acceleration in the funding or delivery under these contracts could result in significant variations in revenues from period to period.

Nine months ended December 31, 2000 compared to the nine months ended December 31, 1999

The Company incurred a net loss of $2,057,472 for the nine months ended December 31, 2000 compared to a net loss of $1,521,997 for the comparable earlier period. The Company's gross loss was essentially unchanged between the periods with a gross loss of $423,980 in 2000 and $420,907 in 1999. Sales increased to $228,022 in the first nine months of fiscal 2001 from $87,071 in the first nine months of the last fiscal year. Cost of sales increased to $652,002 in fiscal 2001 from $507,978 in the earlier period reflecting increased sales in fiscal 2001. Sales of Nuovinox products principally occurred in the first three months of fiscal 2001 with sales of Nuovinox products in the second and third quarters being delayed due to a change over from dowels to rebar, the timing of orders and some inefficiencies in production.

Selling general and administrative costs increased by approximately $300,000, to $1,352,979 for the nine months ended December 31, 2000 from $1,055,765 for the nine months ended December 31, 1999. The Company had reduced the number of administrative employees in the later period but the cost saving from this reduction was more than offset from professional fees that were incurred in the second and third quarters of the current fiscal year as well as some increased staffing occurring in anticipation of increased business activity.

The Company incurred interest expense of $335,986 in the fist nine months of the current fiscal year, principally reflecting the Bank of America financing.

Quarter ended December 31, 2000 compared to the quarter ended December 31,1999.

The Company incurred a net loss of $911,162 in the third quarter of fiscal 2001compared to a net loss of $513,558 for the same period in the previous fiscal year. Sales were essentially unchanged, $39,029 in the later period reflecting some revenue from the Nuovinox product compared to negative sales in the earlier period due the to the planned conversion to the Nuovinox product and the cessation of other production and sales activities. Sales were flat because the Company changed its production in the second quarter from dowels to rebar. Selling, general and administrative expenses were $536,603 for the three month period ended December 31, 2000 and were $339,747 for the three month period ended December 31, 1999, reflecting professional fees and some increased staffing levels.

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 19, 2001

/s/ Harmon S. Hardy

Harmon S. Hardy, President and
Principal Financial Officer