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STELAX INDUSTRIES LTD
Form 10-Q
February 21, 2003

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 December 31, 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 February 1, 2003: 43,184,775

Part 1 - FINANCIAL INFORMATION
Item 1. Financial Statements.Stelax Industries Ltd.

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

| ASSETS | Dec-31 2002 ----- (Unaudited) | Mar 20 ----- |
|---|--|--------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,866 | \$ |
| Note Receivable | 141,480 | |
| Inventory-Raw Materials | | |
| Work in Progress | - | |
| Finished Goods | - | |
| Accounts Receivable- Trade | - | |
| (Allowance for doubtful accounts at Dec 31 and March 31 2002, \$0 and \$0 respectively) | - | |
| Receivables from related parties | 3,000 | |
| Prepaid and other current assets | 10,687 | |
| | ----- | ----- |
| Total Current Assets | 158,033 | |
| PROPERTY & EQUIPMENT - AT COST | | |
| Plant & Machinery | - | |
| Building | - | |
| Land | - | |
| | ----- | ----- |
| Accumulated Depreciation | - | |
| | ----- | ----- |
| Total Property and Equipment | - | |
| INTANGIBLE ASSETS | | |
| (Accumulated amortisation of \$0 and \$0 at Dec 31 and March 31 2002 respectively | - | |
| | ----- | ----- |
| OTHER ASSETS | - | |
| | ----- | ----- |
| TOTAL ASSETS | \$ 158,033 ===== | \$ ===== |

See notes to financial statements

1

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

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LIABILITIES AND STOCKHOLDERS EQUITY

| | Dec-31 2002 | Mar 20 |
|---|----------------------|-----------|
| | ----- (Unaudited) | ----- |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 383,066 | \$ |
| Payable to Related Parties | 625,701 | 1, |
| Accrued Interest | 684,523 | |
| Note Payable - short term | 3,645,833 | 3, |
| | ----- | ----- |
| | 5,339,123 | 5, |
| NOTE PAYABLE - LONG TERM | - | |
| STOCKHOLDERS EQUITY | | |
| Common stock - 50,000,000 shares authorised no stated par value; issued and outstanding 43,184,775 and 43,184,775 shares at Dec 31 and March 31 2002 respectively. | 26,348,675 | 25, |
| Cumulative translation adjustments | 83,684 | |
| Accumulated deficit | (31,613,449) | (30, |
| | ----- | ----- |
| Total Stockholders Equity | (5,181,090) | (5, |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 158,033 | \$ |
| | ===== | ===== |

See notes to financial statements

2

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

| | Three Months Ended | | Nine Month | |
|---------------|--------------------|----------------|----------------|---|
| | Dec-31 2002 | Dec-31 2001 | Dec-31 2002 | |
| | ----- | ----- | ----- | |
| Sales | \$ - | \$ 35,007 | \$ | - |
| Cost of Sales | - | 192,880 | - | - |
| | ----- | ----- | ----- | |
| Gross Loss | - | (157,873) | - | - |

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| | | | |
|---|--------------|--------------|----------------|
| Selling, general and administrative Expenses (including depreciation and amortisation of \$0 and \$491,888 for the nine months ending Dec 2002 and Dec 2001 respectively) | 180,720 | 465,756 | 897,446 |
| | ----- | ----- | ----- |
| Loss from operations | (180,720) | (623,629) | (897,446) |
| Other Income (Expense) | | | |
| Interest income | - | - | |
| Interest expense | (91,812) | (98,491) | (279,904) |
| | ----- | ----- | ----- |
| Net Loss | \$ (272,532) | \$ (722,120) | \$ (1,177,350) |
| | ===== | ===== | ===== |
| Weighted average shares of common stock | 43,184,775 | 42,750,492 | 43,184,775 |
| | ===== | ===== | ===== |
| Net loss per share | \$ (0.01) | \$ (0.02) | \$ (0.03) |
| | ===== | ===== | ===== |

See notes to financial statements

3

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

| | Nine Months Ended | |
|---|-------------------|-----------|
| | Dec-31 2002 | Dec 20 |
| | ----- | ----- |
| OPERATING ACTIVITY | | |
| Net Loss | \$ (1,177,350) | \$ (2, |
| Adjustments to reconcile net loss to netcash provided | | |

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| | | |
|--|-------------|-------|
| by operating activities : | | |
| Depreciation & amortisation | - | |
| Foreign currency transaction gain (Loss) | - | |
| Changes in operating assets and liabilities : | | |
| Decrease (increase) in receivables | - | |
| Decrease (increase) in inventory & other assets | 92,247 | |
| Increase (decrease) in accounts payable and accrued interest | 16,909 | |
| | ----- | ----- |
| Net Cash (used) provided by operating activities | (1,068,194) | (1, |
| INVESTING ACTIVITIES | | |
| Purchase of property, equipment and intangibles | - | |
| | ----- | ----- |
| Net cash used by investing activities | - | |
| FINANCING ACTIVITIES | | |
| Common stock issue | 1,066,958 | |
| Convertible note payable issue | - | |
| Note Payable issue (payment) | - | (|
| | ----- | ----- |
| | 1,066,958 | |
| Increase (decrease) in cash and cash equivalents | (1,236) | (|
| Cash & cash equivalents at beginning of period | 4,102 | |
| | ----- | ----- |
| Cash & cash equivalents at end of period | \$ 2,866 | \$ |
| | ----- | ----- |
| Interest paid | \$ - | \$ |
| | ----- | ----- |
| Income taxes paid | \$ - | \$ |
| | ----- | ----- |

See notes to financial statements

4

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, 2002 are not necessarily indicative of results to be expected for the entire year. These

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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 43,184,775 and 44,575,256 outstanding during the nine month period ended December 31, 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

As of December 31, 2002 funds are owed by the Company totaling \$ 625,701 to the President of the Company and his affiliates. As of December 31, 2001, funds owed by the Company totaled \$1,113,614 to the President of the Company and his affiliates.

As of December 31, 2002, the Company owed the President of the Company \$467,329. As of March 31, 2002, the Company owed the President of \$906,065.

5

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 - Liquidity and Capital Resources

In fiscal 1999 and 2000 the Company ceased production and sales of stainless steel and developed the market for its Nuovinox product, much of which involved

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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 successful and 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 Bank 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 proceeds from the term loan were used to fund operational losses to the 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.

Financially, the Company had to achieve positive cash flow, including debt service, from the capital provided from the Loan Agreement. This goal seemed achievable because the Nuovinox product had received strong acceptance and a large number of orders. Production of Nuovinox began in large quantities in the first quarter 2001, the delay being caused by the development of processes unique to the product, development that had not been completed and implemented successfully when the Company's subsidiary entered into receivership in March 2002.

In fiscal 1999, at the end of which the Company ceased production of stainless steel, the Company incurred a loss of \$3,150,498 and in fiscal 2000 incurred a loss of \$2,279,926. These losses continued as increased production began on the Nuovinox product in fiscal 2001 when the Company incurred a loss of \$2,902,573. Because the Company incurs a substantial amount of depreciation and amortization, \$506,050 in fiscal 1999 \$538,673 in fiscal 2000, and \$555,231 in fiscal 2001, the cash losses for fiscal 1999, 2000 and 2001 were approximately \$2,640,000, \$1,740,000 and \$2,450,000, 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 not 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.

In fiscal 2001, cash losses were funded through a line of credit.

In fiscal 2002, there were no other sources of funds to cover cash losses, and in March 2002, the U.K. subsidiary entered into receivership.

6

The Company remains in negotiation with the Receiver in regard to the acquisition of the assets and Management feels optimistic that their objective can be achieved.

Nonetheless, the Company's audit report is qualified because of the concern over the Company's ability to continue as a going concern.

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Nine Months ended December 31, 2002, compared to nine months ended December 31, 2001

The Company's revenues were \$ zero in the nine months ended December 31, 2002 due to the U.K. subsidiary being in receivership and not operational under the control of Stelax Industries Ltd. Revenues in the nine months ended December 31, 2001 had been \$ 567,842.

The Company's losses for the nine months ended December 31, 2002 amounted to \$1,177,350 of which \$279,904 was interest expense and \$897,446 was general and administrative expense. In the nine months ended December 31, 2001 the respective figures were a loss \$2,548,610 of which \$303,256 was interest and \$1,479,258 general and administration expenses.

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 wer 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.

7

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

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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.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

During the 90-day period prior to the date of this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, and no corrective actions taken with regard to significant deficiencies or material weaknesses in such controls, subsequent to the date of our most recent evaluation of internal controls.

8

PART - II

Item 6. Exhibits and Reports on Form 8-K

None

9

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

10

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CERTIFICATION

I, Harmon S. Hardy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stelax Industries, Ltd.
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.

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Date: February 20, 2002

/s/ Harmon S. Hardy

Harmon S. Hardy
President and Chief Financial Officer

11

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing with the Securities and Exchange Commission of the Quarterly Report of Microwave Transmission Systems, Inc. (the "Company"), on Form 10-QSB, as amended, for the period ending September, 30, 2002 (the "Report"), I, Harmon H. Hardy, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Harmon S. Hardy

Harmon S. Hardy, Chief Executive Officer and
Chief Financial Officer

February 20, 2003

12