

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-QSB**

(Mark One)

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

**For the quarterly period ended June 30, 2003**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

**Commission file number: 0-31198**

**STELLAR INTERNATIONAL INC.**

\_\_\_\_\_  
(Exact name of registrant as specified in its charter)

**Ontario, Canada**

(State or other jurisdiction of incorporation or organization)

**N/A**

(I.R.S. Employer Identification No.)

**82 Wellington Street South, Suite 201, London, Ontario Canada N6B 2K3  
(519) 434-1540**

\_\_\_\_\_  
(Address and telephone number of registrant's principal executive offices and principal place of business)

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), or (2) has been subject to such filing requirements for the past 90 days.

Yes  No

The number of outstanding common shares, no par value, of the Registrant at:

June 30, 2003: 14,376,577

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**STELLAR INTERNATIONAL INC.**  
**INTERIM FINANCIAL STATEMENTS**  
**(Canadian Funds)**  
**(Unaudited – Prepared by Management)**

JUNE 30, 2003

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**STELLAR INTERNATIONAL INC.**  
**INTERIM BALANCE SHEET**  
**(Canadian Funds)**  
**(Unaudited – Prepared by Management)**

|                                     | June 30,<br>2003  | December 31,<br>2002 |
|-------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                       |                   |                      |
| <b>CURRENT</b>                      |                   |                      |
| Cash and cash equivalents           | \$ 138,820        | \$ 189,468           |
| Accounts receivable                 | 143,029           | 26,474               |
| Inventory (Note 2)                  | 74,244            | 71,372               |
| Deposits and sundry receivable      | 29,768            | 15,276               |
|                                     | 385,861           | 302,590              |
| <b>PLANT AND EQUIPMENT</b> (Note 3) | 295,140           | 300,651              |
| <b>OTHER</b> (Note 4)               | 3,160             | 3,314                |
|                                     | <u>\$ 684,161</u> | <u>\$ 606,555</u>    |

**LIABILITIES**

**CURRENT**

|                        |    |         |    |         |
|------------------------|----|---------|----|---------|
| Accounts payable       | \$ | 182,843 | \$ | 163,799 |
| Accrued liabilities    |    | 87,174  |    | 51,691  |
| Loans payable (Note 5) |    | 207,900 |    | -       |
|                        |    | 477,917 |    | 215,490 |

**CONTINGENCIES AND COMMITMENTS** (Note 7)**SHAREHOLDERS' EQUITY****CAPITAL STOCK** (Note 6)

## AUTHORIZED

Unlimited – Non-voting, convertible, redeemable and retractable preferred shares

Unlimited – Common shares

## ISSUED

|            |  |           |           |
|------------|--|-----------|-----------|
| 14,376,577 | Common shares (December 31, 2002 – 14,261,577) | 2,089,454 | 2,051,503 |
| -          | Paid-in capital options – outstanding          | 77,300    | 67,300    |
|            | - expired                                      | 67,263    | 57,263    |
| 52,083     | – Shares to be issued                          | 14,036    | -         |
|            |  | 2,248,053 | 2,186,066 |

**DEFICIT**

|             |             |
|-------------|-------------|
| (2,041,809) | (1,795,001) |
| 206,244     | 391,065     |

|    |         |    |         |
|----|---------|----|---------|
| \$ | 684,161 | \$ | 606,555 |
|----|---------|----|---------|

See accompanying notes to financial statements.

[Table of Contents](#)**STELLAR INTERNATIONAL INC.****INTERIM STATEMENT OF LOSS AND DEFICIT**  
(Canadian Funds)  
(Unaudited – Prepared by Management)

|                                     | <u>For the Three Month</u><br><u>Period Ended June 30,</u> |            | <u>For the Six Month</u><br><u>Period Ended June 30,</u> |            |
|-------------------------------------|--|------------|--|------------|
|                                     | 2003   | 2002       | 2003   | 2002       |
| <b>REVENUE</b>                      | \$ 358,932   | \$ 257,383 | \$ 581,247   | \$ 435,396 |
| <b>COST OF GOODS SOLD</b>           | 59,371   | 53,112     | 105,185  | 97,030     |
| <b>GROSS PROFIT</b>                 | 299,561  | 204,271    | 476,062  | 388,366    |
| <b>EXPENSES</b>                     |  |            |  |            |
| Selling, general and administrative | 360,887  | 267,294    | 639,910  | 510,606    |

|   |                |                |                |                |
|---|----------------|----------------|----------------|----------------|
| Research and development                                    | 34,376         | 64,161         | 48,305         | 156,812        |
| Amortization  | 17,333         | 1,717          | 34,920         | 3,434          |
| Investment income   | (265)          | (8,480)        | (265)          | (8,741)        |
|   | 412,331        | 324,692        | 722,870        | 662,111        |
| <b>NET LOSS FOR THE PERIOD</b>                              | (112,770)      | (120,421)      | (246,808)      | (323,745)      |
| <b>DEFICIT</b> , beginning of period                        | (1,929,039)    | (1,203,149)    | (1,795,001)    | (999,825)      |
| <b>DEFICIT</b> , end of period                              | \$ (2,041,809) | \$ (1,323,570) | \$ (2,041,809) | \$ (1,323,570) |
| <b>NET LOSS PER SHARE</b>                                   |                |                |                |                |
| Basic and diluted   | \$ (0.01)      | \$ (0.01)      | \$ (0.02)      | \$ (0.02)      |
| <b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b> |                |                |                |                |
| Basic and diluted   | 14,318,445     | 14,261,577     | 14,290,168     | 14,261,577     |

See accompanying notes to financial statements.

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**STELLAR INTERNATIONAL INC.**

**INTERIM STATEMENT OF CASH FLOWS  
(Canadian Funds)  
(Unaudited – Prepared by Management)**

|   | <b>For the Three Month<br/>Period Ended June 30,</b> |             | <b>For the Six Month<br/>Period Ended June 30,</b> |             |
|---|--|-------------|--|-------------|
|   | <b>2003</b>  | <b>2002</b> | <b>2003</b>  | <b>2002</b> |
| <b>OPERATING ACTIVITIES</b>                         |  |             |  |             |
| Net loss for the period                             | \$ (112,770)   | (120,421)   | (246,808)  | (323,745)   |
| Amortization  | 17,333   | 2,253       | 34,920   | 4,508       |
| Service rendered for issuance of shares and options | 61,986   | -           | 61,986   | 4,508       |
| Changes in non-cash components of working capital   |  |             |  |             |
| Accounts receivable                                 | (79,984)   | (28,687)    | (116,555)  | 259,835     |
| Inventory   | 5,392  | (8,988)     | (2,872)  | 7,037       |
| Investment tax recoverable                          | 25,243   | -           | -  | (220,879)   |
| Deposits and sundry receivables                     | (5,705)  | (206,417)   | (14,492)   | (220,879)   |
| Accounts payable and accrued liabilities            | 59,556   | 50,572      | 54,528   | 61,651      |
|   | (28,949)   | (311,688)   | (229,293)  | (211,593)   |
| <b>FINANCING ACTIVITY</b>                           |  |             |  |             |
| Increase in loans payable                           | 147,900  | -           | 207,900  | -           |

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| <b>INVESTING ACTIVITY</b>  |            |            |            |            |
| Purchase of plant and equipment                                    | (29,282)   | (17,038)   | (29,255)   | (19,038)   |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>                         | 89,669     | (328,726)  | (50,648)   | (228,631)  |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS,</b><br>beginning of period | 59,151     | 941,166    | 189,468    | 841,609    |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS, end</b><br>of period       | \$ 138,820 | \$ 612,440 | \$ 138,820 | \$ 612,978 |

See accompanying notes to financial statements.

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**STELLAR INTERNATIONAL INC.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(Canadian Funds)**  
**(Unaudited – Prepared by Management)**

**JUNE 30, 2003**

**1. BASIS OF PRESENTATION**

These interim financial statements should be read in conjunction with the financial statements for the Company's most recently completed fiscal year ended December 31, 2002. They do not include all disclosures required in annual financial statements but rather are prepared in accordance with recommendations for interim financial statements in conformity with Canadian general accepted accounting principles. They have been prepared using the same accounting policies, and methods as those used in the December 31, 2002 accounts.

The preparation of interim financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the interim financial statements and the revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. INVENTORY**

|                    | <b>June 30, 2003</b> | <b>December 31, 2002</b> |
|--------------------|----------------------|--------------------------|
| Raw materials      | \$ 13,978            | \$ 3,068                 |
| Finished goods     | 32,755               | 46,151                   |
| Packaging material | 27,511               | 22,153                   |
|                    | <u>\$ 74,244</u>     | <u>\$ 71,372</u>         |

**3. PLANT AND EQUIPMENT**

|           | <u>June 30, 2003</u> |                          |            | <u>December 31, 2002</u> |
|-----------|----------------------|--------------------------|------------|--------------------------|
|           | Cost                 | Accumulated Amortization | Net        | Net                      |
| Equipment | \$ 379,083           | \$ 83,943                | \$ 295,140 | \$ 300,651               |

#### 4. OTHER ASSET

|         | <u>June 30, 2003</u> |                          |          | <u>December 31, 2002</u> |
|---------|----------------------|--------------------------|----------|--------------------------|
|         | Cost                 | Accumulated Amortization | Net      | Net                      |
| Patents | \$ 3,885             | \$ 725                   | \$ 3,160 | \$ 3,314                 |

#### 5. LOANS PAYABLE

Subsequent to June 30, 2003, the loans payable were converted into 770,000 shares of the Company's common stock at \$0.27 per share.

#### 6. CAPITAL STOCK

During the current quarter, the Company issued 115,000 common shares at \$0.33 per share totalling \$37,950 in payment for consulting services.

#### 7. CONTINGENCIES AND COMMITMENTS

##### (a) Legal Action

On May 2, 1997, a competitor claimed injunctive relief against the Company as well as damages including aggravated, exemplary and punitive damage of \$20,000,000 for breach of fiduciary duty, breach of contract, misuse of confidential information, including breach of contract, interference with contractual interest, conversion, detainue and an accounting for the profits from such activities. In turn, the Company counterclaimed for a dismissal of the action and damages in the amount of \$500,000, interest and cost.

A motion was brought by the claimant for an interim injunction against the Company which was dismissed. A leave to appeal motion was brought by the claimant which was also dismissed. As at year-end, the claimant has paid a total of \$27,000 of costs to the Company. In the opinion of the Company's legal counsel, the competitor's claim against the Company is without merit and the outstanding counterclaim, if pursued by the company, would likely result in damages in excess of the competitor's claim. Therefore, no provision has been made in the financial statements.

##### (b) Royalty Agreement

The Company entered into a royalty agreement on sales of one of its products. The agreement runs through September 30, 2008 with payments ranging from 5% of sales to September 30, 2000 to 2% by October 1, 2003.

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## Overview

During this past quarter ending June 30, 2003, Stellar continued to make positive progress on its core business objectives to expand its medical device/pharmaceutical business. In-market sales for current products continued to show strong growth in this second quarter even with the impact of SARS. Sales for the month of June were so strong that Stellar produced a profit for the month. Our business development efforts have also been productive with two new out-licensing agreements signed in the quarter and excellent progress on a number of in-licensing opportunities.

Regulatory approval of Uracyst<sup>®</sup> in the European market has still not been completed, which continues to delay milestone and royalty payments. The Skelite launch in Canada has also been delayed due to process validations, the first supply of product is now not expected until August. This will mean the earliest launch date will be in the final quarter of this year. Even with these delays, which carry added costs with no offsetting revenues, our monthly cash burn rate was reduced by 6.3%.

## Results (all dollars are quoted in thousands)

For the 3 month period ending June 30, 2003, total revenue increased 39.5 % to \$ 358.9, compared to \$ 257.4 for the same period in 2002. Sales for the 6 month period ending June 30, 2003 were \$ 581.2 up 33.5 % over the same period of 2002. The results over all were negatively affected by the SARS outbreak in our major markets in the second quarter. We believe this event reduced our sales by over 10% as elective procedures were either delayed or cancelled.

Operating loss for the 3 month period ending June 30, 2003 was \$ 113.3 (less than \$ 0.01 per share) as compared to net loss in the same period for 2002 of \$ 121.0 (\$ 0.01 per share) down 6.3 %. For the 6 month period ended June 30, 2003 operating loss was down 23.8 % to \$ 247.8 compared to a loss of \$ 324.8 for same period ending June 30, 2002. This decrease is directly related to the increase in sales revenue, as we progressively move closer to breakeven point. In the month of June alone, the company showed a profit of over \$ 30, which is encouraging for the remaining quarters.

## Cost of Sales

For the 3 month period ending June 30, 2003 cost of sales amounted to 16.5 % of product sales and 18.1 % for the 6 month period ending June 30, 2003. This represents a 4.1 % improvement over the same periods in 2002 as we continue to improve our operation efficiencies.

## Research and Development

The company continues to invest in research necessary to expand its products into international markets. However, clinical trial investment in certain key markets will remain on hold until such time as out-licensing discussions can be finalized. The company's focus on product development will continue to be two fold, in-licensing and out-licensing for immediate impact on revenue stream and in-house product development for future growth stability.

## Selling, general and administrative expenses

Selling, General and Administrative expenses remain high as we bear the increased costs put in place to launch a new product without off setting revenues and add infrastructure necessary to meet future growth.

The second quarter results although not as strong as expected continue to strengthen our belief that our strategies will grow our business to profitable levels in 2003. Stellar is quite confident that it can continue to fund its ongoing operations from the sale of its shares, sale of its products and milestone and royalty payment from out-licensing agreements.

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## SIGNATURES

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

Date: August 14, 2003

STELLAR INTERNATIONAL INC.

By: /s/ Peter Riehl  
Name: Peter Riehl  
Title: Chief Executive Officer

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### SARBANES-OXLEY ACT SECTION 302(a) CERTIFICATION

I, Peter Riehl, the Chief Executive Officer of Stellar International Inc. (the "Company"), certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Stellar International Inc.
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 officer 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 officer 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 the 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 officer 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.

Date: August 14, 2003

/s/ Peter Riehl  
Peter Riehl  
Chief Executive Officer

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### SARBANES-OXLEY ACT SECTION 302(a) CERTIFICATION

I, Sam Hahn, the Interim Chief Financial Officer of Stellar International Inc. (the "Company"), certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Stellar International Inc.
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 officer 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 officer 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 the 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 officer 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.

Date: August 14, 2003

/s/ Sam Hahn  
Sam Hahn  
Interim Chief Financial Officer

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CERTIFICATION PURSUANT TO  
18 U.S.C. §1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Stellar International Inc. (the "Company") on Form 10-QSB for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter Riehl, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- and
- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
  - (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Peter Riehl \_\_\_\_\_  
Peter Riehl  
Chief Executive Officer  
August 14, 2003

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CERTIFICATION PURSUANT TO  
18 U.S.C. §1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Stellar International Inc. (the "Company") on Form 10-QSB for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Samuel T. Hahn, Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- and
- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
  - (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Samuel T. Hahn  
Samuel T. Hahn  
Interim Chief Financial Officer  
August 14, 2003

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