
**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 September 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.)
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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:

September 30, 2003: 15,942,912

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: November 14, 2003

STELLAR INTERNATIONAL INC.

By: /s/ Peter Riehl

Name: Peter Riehl

Title: Chief Executive Officer

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

SEPTEMBER 30, 2003

STELLAR INTERNATIONAL INC.

SEPTEMBER 30, 2003

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

ASSETS

	September 30	December 31
	<u>2003</u>	<u>2002</u>
CURRENT		
Cash and cash equivalents	\$ 80,451	\$ 189,468
Accounts receivable	79,679	26,474
Inventory (Note 2)	86,818	71,372
Deposits and sundry receivable	21,320	15,276
	268,268	302,590
PROPERTY AND EQUIPMENT (Note 3)	283,204	300,651
OTHER (Note 4)	3,103	3,314
	\$ 554,575	\$ 606,555

LIABILITIES

CURRENT		
Accounts payable	\$ 106,813	\$ 163,799
Accrued liabilities	70,727	51,691
	177,540	215,490

CONTINGENCIES AND COMMITMENTS (Note 6)

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 5)			
AUTHORIZED			
Unlimited	Non-voting, convertible, redeemable and retractable preferred shares		
Unlimited	Common shares		
ISSUED			
15,942,912	Common shares (December 31, 2002 - 14,261,577)	2,483,276	2,051,503
-	Paid-in capital options and warrants - outstanding	110,333	67,300
	- expired	67,263	67,263
52,083	Shares to be issued	14,061	-
		2,674,933	2,186,066
DEFICIT		(2,297,898)	(1,795,001)
		377,035	391,065
		\$ 554,575	\$ 606,555

[See accompanying notes to financial statements.](#)

STELLAR INTERNATIONAL INC.
INTERIM STATEMENT OF LOSS AND DEFICIT

(Canadian Funds)

(Unaudited - Prepared by Management)

	For the Three Month Period Ended September 30		For the Nine Month Period Ended September 30	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
REVENUE	\$ 226,530	\$ 187,423	\$ 807,777	\$ 622,819
COST OF GOODS SOLD	42,815	45,828	148,000	142,858
GROSS PROFIT	<u>183,715</u>	<u>141,595</u>	<u>659,777</u>	<u>479,961</u>
EXPENSES				
Selling, general and administrative	399,153	314,926	1,039,063	825,532
Research and development	24,037	57,372	72,342	214,184
Amortization	16,717	6,717	51,637	10,151
Investment income	(103)	(5,124)	(368)	(13,865)
	<u>439,804</u>	<u>373,891</u>	<u>1,162,674</u>	<u>1,036,002</u>
NET LOSS FOR THE PERIOD	(256,089)	(232,296)	(502,897)	(556,041)
DEFICIT , beginning of period	(2,041,809)	(1,323,570)	(1,795,001)	(999,825)
DEFICIT , end of period	<u>\$ (2,297,898)</u>	<u>\$ (1,555,866)</u>	<u>\$ (2,297,898)</u>	<u>\$ (1,555,866)</u>
NET LOSS PER SHARE				
Basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic and diluted	<u>15,549,433</u>	<u>14,261,577</u>	<u>14,714,536</u>	<u>14,261,577</u>

[See accompanying notes to financial statements.](#)

STELLAR INTERNATIONAL INC.
INTERIM STATEMENT OF CASH FLOWS
(Canadian Funds)
(Unaudited - Prepared by Management)

	For the Three Month Period Ended September 30		For the Nine Month Period Ended September 30	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES				
Net loss for the period	\$ (256,089)	\$ (232,296)	\$ (502,897)	\$ (556,041)
Amortization	16,717	6,717	51,637	10,151
Service rendered for issuance of shares and options	99,820	-	161,806	-
Changes in non-cash components of working capital				
Accounts receivable	63,350	29,650	(53,205)	289,485
Inventory	(12,574)	(14,987)	(15,446)	(7,950)
Deposits and sundry receivables	8,448	210,359	(6,044)	(10,520)
Accounts payable and accrued liabilities	(92,478)	22,346	(37,950)	83,997
	<u>(172,806)</u>	<u>21,789</u>	<u>(402,099)</u>	<u>(190,878)</u>
FINANCING ACTIVITY				
Proceeds of issuance of capital stock	119,161	-	327,061	-
INVESTING ACTIVITY				
Purchase of property and equipment	(4,724)	(284,279)	(33,979)	(301,317)
CHANGE IN CASH AND CASH EQUIVALENTS				
	(58,369)	(262,490)	(109,017)	(492,195)
CASH AND CASH EQUIVALENTS, beginning of period	<u>138,820</u>	<u>611,904</u>	<u>189,468</u>	<u>841,609</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 80,451</u>	<u>\$ 349,414</u>	<u>\$ 80,451</u>	<u>\$ 349,414</u>
SUPPLEMENTAL DISCLOSURE RELATING TO NON-CASH FINANCING ACTIVITY:				
Common shares and options issued for services rendered	<u>\$ 99,820</u>	<u>\$ -</u>	<u>\$ 161,806</u>	<u>\$ -</u>

[See accompanying notes to financial statements.](#)

STELLAR INTERNATIONAL INC.
NOTES TO INTERIM FINANCIAL STATEMENTS

(Canadian Funds)
(Unaudited - Prepared by Management)

SEPTEMBER 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

	September 30, <u>2003</u>	December 31, <u>2002</u>
Raw materials	\$ 4,512	\$ 3,068
Work in progress	40,120	-
Finished good	15,979	46,151
Packaging material	26,207	22,153
	<u>\$ 86,818</u>	<u>\$ 71,372</u>

3. PROPERTY AND EQUIPMENT

	September 30, 2003		December 31, 2002	
	Cost	Accumulated Amortization	Net	Net
Equipment	\$ 383,807	\$ 100,603	\$ 283,204	\$ 300,651

4. OTHER ASSET

	September 30, 2003		December 31, 2002	
	Cost	Accumulated Amortization	Net	Net
Patents	\$ 3,885	\$ 782	\$ 3,103	\$ 3,314

5. CAPITAL STOCK

- a. During the current quarter, the Company issued 355,000 common shares at an average price of \$0.28 per share totalling \$99,795 in payment for consulting services, and 1,211,335 common shares issued for cash at \$0.27 per share from private placement.
- b. Stock Options and Warrants

During the current quarter, the Company issued 660,667 common share purchase warrants in connection with the private placement. Each warrant entitles the holder to purchase one-half of common shares of the Company for \$0.35 on or before the first anniversary and \$0.45 on the second anniversary of the issuance of warrants. The warrants will expire on July 15, 2004.

During the second quarter of this year, the Company issued 200,000 options to a consultant which entitles the holder to purchase one common share of the Company for a price of \$0.40 per share at any time until January 1, 2005. The fair value of these warrants and options was estimated at \$0.05 each at the date of grant using the Black-Scholes option-pricing model with the following assumptions.

Risk-free interest rate	- 6%
Expected life	- 2 years
Expected volatility	- 35%
Dividend yield	- 0%

Based on the foregoing option-pricing model, the compensation expense of \$10,000 for the options issued has been recorded and the estimated fair value of the warrants issued totaling \$33,033 has been deducted from the proceeds of the common shares issued with corresponding credits to paid-in capital.

6. 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, detinue 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.

Results of Operations for 3 months ending September 30, 2003 - USA

Overview

The quarterly results for 2003 had revenue growth 20.9 % ahead of the same quarter in 2002 and a September 2003 year-to-date sales growth up 29.7 % over the same period in 2002. Historically the third quarter ending September 30 is a low productivity quarter due to the summer months.

During this last quarter Stellar incurred increased expenses related to infrastructure changes put in place to service the demands of in-licensing and out-licensing agreements. These will not have any offsetting revenues until later in the 4th quarter of 2003 and the 1st quarter of 2004. On the positive side we expect the revenues from these agreements to have very favorable impact in the near term performance of the Company.

During this past quarter we were please to have received our ISO 9001, 13485 registration, which will be a required standard for all medical device companies in Canada. This again is an example of required investments in infrastructure that improves the viability and productivity of the company.

Results

For the 3 month period ending September 30, 2003, total revenue increased by 20.9 % to \$ 226.5 thousand, compared to \$ 187.4 thousand for the same period in 2002. Sales for the 9 month period ending September 30, 2003 were \$ 807.7 thousand up 29.7 % over the same period in 2002. Considering the negative affect of the SARS outbreak earlier in the year, our growth is starting to rebound nicely.

Gross Profit for the quarter ending September 30, 2003 was up 29.7% and for the 9 month period ending September 30, 2003 increased by 37.5% over the same periods for 2002. Operating loss for the 3 month period ending September 30, 2003 was \$ 256.1 thousand compared to a net loss in the same period for 2002 of \$ 232.3 thousand, up 10.2 % due to product development costs of \$ 30.6 thousand. For the 9 month period ended September 30, 2003 operating loss was down 9.6 % to \$ 502.9 compared to a loss of \$ 556.1 thousand for the same period ending September 30, 2002. These losses have been impacted heavily this year by non cash expenses attributed to share management of \$ 177.5 and one time costs of \$ 46. 0 thousand related to business development. We have also continued to invest in manufacturing improvements that will improve efficiencies and allow us to meet future requirements.

Cost of Sales

For the 3 month period ending September 30, 2003 cost of sales amounted to 18.9 % of product sales and 18.3 % for the 9 month period ending September 30, 2003. This represents a 4.6 % 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 new products without off setting revenues. We have also added infrastructure, which is necessary to meet future growth.

We continue to make solid progress on our core objectives and remain convinced that our strategies will grow our business to profitable levels in the very near term. 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.

CERTIFICATION
Pursuant to Rule 13a-14

I, John Kime, a Director and member of the Audit Committee 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: November 14, 2003

/s/ John Kime
John Kime
Director and Member of the Audit Committee

CERTIFICATION
Pursuant to Rule 13a-14

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: November 14, 2003

/s/ Peter Riehl
Peter Riehl
Chief Executive Officer

**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 September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Kime, Director and member of the Audit Committee 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:

- (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 this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Kime

John Kime
Director and Member of the Audit Committee
November 14, 2003

Exhibit 99.1

**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 September 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. § 101, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (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 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
November 14, 2003