

TIREX CORP
Form 10QSB
February 17, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities
Exchange Act of 1934
For the quarterly period ended December 31, 2003

Transition report under Section 13 or 15(d) of the Securities
Exchange Act of 1934
For the transition period from to

Commission File Number 33-17598-NY

THE TIREX CORPORATION

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware
(State or other jurisdiction of
Incorporation or Organization)

22-2824362
(I.R.S. Employer
Identification No.)

4055 Ste-Catherine Street West, Suite 151, Montreal (Westmount), Quebec,
Canada, H3Z 3J8

(Address of Principal executive offices)

(514) 935-2525

(Issuer's telephone number, including area code)

(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 issuer was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Edgar Filing: TIREX CORP - Form 10QSB

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding for each of the issuer's classes of common equity, as of February 5, 2004 :
249,895,892

shares

Transitional Small Business Disclosure Format (check one): Yes No

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements (Unaudited)

Page

The Tirex Corporation and Subsidiaries
Consolidated Balance Sheets as of December 31, 2003

Consolidated Statements of Operations
for the three and six month periods
ended December 31, 2003 and 2002

Consolidated Statements of Cash Flows
for the three and six month periods
ended December 31, 2003 and 2002

Notes to Financial Statements (Unaudited)

Item 2 - Management's Discussion and Analysis of
Financial Condition and Results of Operations

PART II B OTHER INFORMATION

Item 1 - Legal Proceedings

Item 2 - Changes in Securities and Use of Proceeds

Item 3 - Defaults Upon Senior Securities

Item 4 - Submission of Matters to a Vote of Security Holders

Item 6 - Exhibits and Reports on Form 8-K

The financial statements are unaudited. However, pursuant to SEC requirements, the consolidated financial statements have been reviewed by the Company's independent auditor. Readers are cautioned that a review engagement does not constitute an audit. Management of registrant believes that all necessary adjustments, including normal recurring adjustments, have been reflected to present fairly the financial position of registrant at December 31, 2003 and the results of its operations and changes in its cash position for the three month and six periods ended December 31, 2003 and 2002 and for the period from inception (July 15, 1987).

THE TIREX CORPORATION

A DEVELOPMENT STAGE COMPANY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

| | (Unaudited) | | (Unaudited) | | Cumulative from March 26, 1993 to December 31, 2003 |
|--|--------------------|--------------|------------------|--------------|---|
| | Three months ended | | Six months ended | | |
| | December 31 | | December 31 | | |
| | 2003 | 2002 | 2003 | 2002 | |
| Revenues | \$ - | \$ - | \$ - | \$ 28,515 | \$ 1,354,088 |
| Cost of Sales | - | - | - | 12,981 | 1,031,075 |
| Gross profit | - | - | - | 15,534 | 323,013 |
| Operations | | | | | |
| General and administrative | 123,574 | 190,170 | 269,646 | 451,063 | 11,906,721 |
| Depreciation and amortization | - | - | - | 5,914 | 365,545 |
| Research and development | - | - | - | 450,000 | 15,396,966 |
| Total Expense | 123,574 | 190,170 | 269,646 | 906,977 | 27,669,232 |
| Loss before other expenses (income) | (123,574) | (190,170) | (269,646) | (891,443) | (27,346,219) |
| Other expenses (income) | | | | | |
| Interest expense | 14,942 | 35,769 | 37,623 | 59,634 | 800,354 |
| Interest income | - | - | - | - | (45,443) |
| Income from stock options | - | - | - | - | (10,855) |
| Loss on disposal of equipment | - | - | - | - | 4,549 |
| | 14,942 | 35,769 | 37,623 | 59,634 | 748,605 |
| Net loss | (138,516) | (225,939) | (307,269) | (951,077) | (28,094,824) |
| Other comprehensive loss | | | | | |
| Loss (gain) on foreign exchange | - | - | - | - | 106,137 |
| Net loss and comprehensive loss | \$ (138,516) | \$ (225,939) | \$ (307,269) | \$ (951,077) | \$ (28,200,961) |
| Basic and Diluted net loss and comprehensive loss per common share | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.43) |

Edgar Filing: TIREX CORP - Form 10QSB

Weighted average shares of
common

| | | | | | |
|-------------------|-------------|-------------|-------------|-------------|------------|
| stock outstanding | 249,895,892 | 224,757,559 | 249,895,892 | 224,757,559 | 65,086,898 |
|-------------------|-------------|-------------|-------------|-------------|------------|

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

| | (Unaudited) | | (Unaudited) | | Cumulative from March 26, 1993 to December 31, 2003 |
|---|-----------------------------------|--------------|---------------------------------|--------------|--|
| | Three months ended December 31 | | Six months ended December 31 | | |
| | 2003 | 2002 | 2003 | 2002 | |
| Cash flows from operating activities: | | | | | |
| Net loss | \$ (138,516) | \$ (225,939) | \$ (307,269) | \$ (951,077) | \$ (28,200,961) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | | | |
| Depreciation and amortization | - | - | - | 5,914 | 364,304 |
| (Gain) loss on disposal and abandonment of assets | - | - | - | 530,651 | 2,005,498 |
| Stock issued in exchange for interest | - | - | - | - | 169,142 |
| Stock issued in exchange for services and expenses | - | - | - | - | 10,574,972 |
| Stock options issued in exchange for services | - | - | - | - | 3,083,390 |
| Unrealized (loss) gain on foreign exchange | (54,691) | (3,587) | (53,321) | 30,593 | (435,875) |
| Changes in assets and liabilities: | | | | | |
| (Increase) decrease in: | | | | | |
| Account receivable | - | (174) | - | 4,462 | - |
| Inventory | - | (379) | - | 2,536 | (73,323) |
| Sales tax receivable | - | (7,706) | - | (15,014) | (36) |
| Research and experimental development tax credits receivable | - | 43,448 | - | 120,542 | - |
| Other assets | - | (429) | - | 2,879 | (10,120) |
| (Decrease) increase in : | | | | | |
| Accounts payables and accrued liabilities | 59,355 | 184,994 | 92,790 | 238,512 | 1,988,891 |
| Accrued salaries | 43,750 | 9,997 | 87,500 | 16,118 | 410,652 |
| Due to stockholders | - | - | - | - | 5,000 |
| Net cash used in operating activities | (90,102) | 225 | (180,300) | (13,884) | (10,118,466) |
| Cash flow from investing activities: | | | | | |
| Increase in notes receivable | - | (112) | - | 751 | (259,358) |
| Reduction in notes receivable | - | - | - | - | 237,652 |
| Investment | - | - | - | - | (89,500) |

Edgar Filing: TIREX CORP - Form 10QSB

| | | | | | |
|---|--------|----------|---------|----------|-------------|
| Equipment | - | - | - | - | (321,567) |
| Equipment assembly costs | - | - | - | - | (1,999,801) |
| Organization cost | - | - | - | - | 6,700 |
| Reduction in security deposit | - | - | - | - | (1,542) |
| Net cash used in investing activities | - | (112) | - | 751 | (2,427,416) |
| Cash flow from financing activities: | | | | | |
| Loans from related parties | 90,102 | (77,940) | 180,300 | (94,469) | 4,535,135 |
| Deferred financing costs | - | - | - | - | 180,557 |
| Proceeds from deposits | - | - | - | - | 143,500 |
| Payments on notes payable | - | - | - | - | (409,939) |
| Proceeds from convertible notes | - | - | - | - | 754,999 |
| Proceeds from notes payable | - | - | - | - | 409,939 |
| Payments on lease obligations | - | - | - | - | (86,380) |
| Proceeds from issuance of convertible subordinated debentures | - | - | - | - | 1,035,000 |
| Proceeds from loan payable | - | 33,116 | - | - | 591,619 |
| Payments on loan payable | - | - | - | (4,170) | (488,439) |
| Proceeds from issuance of stock options | - | - | - | - | 20,000 |
| Proceeds from grants | - | 44,711 | - | 111,772 | 3,628,277 |
| Proceeds from issuance of common stock | - | - | - | - | 85,582 |
| Proceeds from additional paid-in capital | - | - | - | - | 2,145,775 |
| Net cash provided by financing activities | 90,102 | (113) | 180,300 | 13,133 | 12,545,625 |
| Net (decrease) increase in cash and cash equivalents | - | - | - | - | (257) |
| Cash and cash equivalents - beginning of period | - | - | - | - | 257 |
| Cash and cash equivalents - end of period | \$ - | \$ - | \$ - | \$ - | \$ - |

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

| | (Unaudited) | | (Unaudited) | | |
|--|--------------------|------|------------------|------|----------------------------|
| | Three months ended | | Six months ended | | Cumulative from |
| | December 31 | | December 31 | | March 26, 1993 |
| | 2003 | 2002 | 2003 | 2002 | to December 31, 2003 |

Supplemental Disclosure of Non-Cash

Activities:

During the year ended June 30, 2003, the Company recorded an increase in common stock and in additional paid-in capital of \$456,583 which was in recognition of the payment of debt.

During the six month period ended December 31, 2003, the Company did not issue common stock in recognition of the payment of debt. During the year ended June 30, 2003, stock was also issued in exchange for services performed and expenses in the amount of \$136,375. During the six month period ended December 31, 2003, the Company did not issue common stock in exchange for services performed and expenses.

Supplemental Disclosure of Cash Flow

Information:

| | | | | | |
|-------------------|------|-----------|------|-----------|------------|
| Interest paid | \$ - | \$ 20,162 | \$ - | \$ 21,024 | \$ 232,748 |
| Income taxes paid | \$ - | \$ - | \$ - | \$ - | \$ - |

THE TIREX CORPORATION
A DEVELOPMENT STAGE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

(UNAUDITED)

Note 1. SUMMARY OF ACCOUNTING POLICIES

CHANGE OF NAME

On July 11, 1997, the Company changed its name from Tirex America, Inc. to The Tirex Corporation.

NATURE OF BUSINESS

The Tirex Corporation (the "Company") was incorporated under the laws of the State of Delaware on August 19, 1987. The Company was originally organized to provide comprehensive health care services, but due to its inability to raise sufficient capital, was unable to implement its business plan. The Company became inactive in November 1990.

REORGANIZATION

On March 26, 1993, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Louis V. Muro, currently an officer and a director of the Company, and former Officers and Directors of the Company (collectively the "Seller"), for the purchase of certain technology owned and developed by the Seller (the "Technology") to be used to design, develop and construct a prototype machine and thereafter a production quality machine for the cryogenic disintegration of used tires. The Technology was developed by the Seller prior to their affiliation or association with the Company.

DEVELOPMENTAL STAGE

At December 31, 2003, the Company is still in the development stage. The operations consist mainly of raising capital, obtaining financing, developing equipment, obtaining customers and supplies, installing and testing equipment and administrative activities.

BASIS OF CONSOLIDATION

The consolidated financial statements include the consolidated accounts of The Tirex Corporation, Tirex Canada R&D Inc., The Tirex Corporation Canada Inc., Tirex Advanced Products Quebec Inc. and Tirex Acquisition Corp. Tirex Canada R&D Inc. is held 51% by certain shareholders of the Company. The shares owned by the certain shareholders are held in escrow by the Company's attorney and are restricted from transfer thereby allowing for a full consolidation of this Company. The Tirex Corporation Canada Inc., Tirex Advanced Products Quebec Inc. and Tirex Acquisition Corp. are 100% held by the Company. All subsidiary companies except Tirex Canada R&D Inc. are dormant. All inter-company transactions and accounts have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, all highly liquid debt instruments purchased with a maturity of three months or less, were deemed to be cash equivalents.

INVENTORY

The Company values inventory, which consists of finished goods and equipment held for resale, at the lower of cost (first-in, first-out method) or market.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation and provisions for write-downs. Depreciation is computed using the straight-line method over the estimated useful lives of five years.

Repairs and maintenance costs are expensed as incurred while additions and betterments are capitalized. The cost and related accumulated depreciation of assets sold or retired are eliminated from the accounts and any gains or losses are reflected in earnings.

INVESTMENT

An investment made by the Company, in which the Company owns less than a 20% interest, is stated at cost value. The cost value approximates the fair market value of the investment.

ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

ADOPTION OF STATEMENT OF ACCOUNTING STANDARD NO. 123

In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation. SFAS 123 encourages, but does not require, companies to record stock-based Compensation and other costs paid by the issuance of stock at fair value. The Company has chosen to account for stock-based compensation, stock issued for non-employee services and stock issued to obtain assets or in exchange for liabilities using the fair value method prescribed in SFAS 123. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

ADOPTION OF STATEMENT OF ACCOUNTING STANDARD NO. 128

In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings per Share. SFAS 128 changes the standards for computing and presenting earnings per share (EPS) and supersedes Accounting Principles Board Opinion No. 15, Earnings per Share. SFAS 128 replaces the presentation of Primary EPS with a presentation of Basic EPS and replaces the presentation of Fully Diluted EPS with a presentation of Diluted EPS. It also requires dual presentation of Basic and Diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the Basic EPS computation to the numerator and denominator of the Diluted EPS computation. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. SFAS 128 also requires

restatement of all prior-period EPS data presented.

As it relates to the Company, the principal differences between the provisions of SFAS 128 and previous authoritative pronouncements are the exclusion of common stock equivalents in the determination of Basic Earnings Per Share and the market price at which common stock equivalents are calculated in the Determination of Diluted Earnings Per Share.

A Basic Earnings per Share is computed using the weighted average number of shares of common stock outstanding for the period. Diluted Earnings per Share is computed using the weighted average number of shares of common stock and dilutive common equivalent shares related to stock options and warrants outstanding during the period.

The adoption of SFAS 128 had no effect on previously reported loss per share amounts for the year ended June 30, 1997. For the years ended June 30, 2002 and June 30, 2001, Primary Loss per Share was the same as Basic Loss per Share and Fully Diluted Loss per Share was the same as Diluted Loss per Share. A net loss was reported in 2003 and 2002, and accordingly, in those years, the denominator for the Basic EPS calculation was equal to the weighted average of outstanding shares with no consideration for outstanding options and warrants to purchase shares of the Company's common stock because to do so would have been anti-dilutive.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Company's financial instruments, which principally include cash, note receivable, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

The fair values of the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At December 31, 2003 and June 30, 2003, respectively, the carrying value of all financial instruments was not materially different from fair value.

INCOME TAXES

The Company has net operating loss carryovers of approximately \$29.0 million as of December 31, 2003, expiring in the years 2004 through 2019. However, based upon present Internal Revenue Service regulations governing the utilization of net operating loss carryovers where the corporation has issued substantial additional stock and there has been a change in control as defined by the Internal Revenue Service regulations, a substantial portion of this loss carryover may not be available to the Company.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes, effective July 1993. SFAS No. 109 requires the establishment of a deferred tax asset for all deductible temporary differences and operating loss carryforwards. Because of the uncertainties discussed in Note 2, however, any deferred tax asset established for utilization of the Company's tax loss carryforwards would correspondingly require a valuation allowance of the same amount pursuant to SFAS No. 109. Accordingly, no deferred tax asset is reflected in these financial statements.

The Company does not currently have research and experimental development tax credits receivable from the Canadian Federal government and the Quebec Provincial government as at December 31, 2003 and also did not have any receivable as at June 30, 2003. These were the result of tax credits for research and experimental Development expenditures made by the Company which are not contingent upon any offset against any income taxes otherwise payable.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment are translated to U.S. dollars at exchange rates in effect at the balance sheet date for monetary items and historical rates of exchange for non-monetary items with the resulting translation adjustment recorded directly to a separate component of shareholders' equity. Income and expense accounts are translated at average exchange rates during the year. Currency transaction gains or losses are recognized in current operations.

REVENUE RECOGNITION

Revenue from the sale of TCS Systems will be recognized when the installed product is accepted by the Customer. All other revenue from other products will be recognized when shipped to the customer.

Note 2. GOING CONCERN

As shown in the accompanying financial statements, the Company incurred a net loss of \$1,561,375 during the year ended June 30, 2003 and an additional net loss for the six month period ended December 31, 2003 in the amount of \$307,269.

In March 1993, the Company had begun its developmental stage with a new business plan. As of March 2000, the Company had developed a production quality prototype of its patented system for the disintegration of scrap tires, but nonetheless continued its research and development efforts to improve the machine's performance and to permit greater flexibility in design for specific customer applications. Due to the Company's lack of working capital during the six month period ended June 30, 2002, all rubber crumb production has ceased and research and development efforts have been hampered. Pending receipt of funding from operations, government assistance, loans or equity financing, crumb rubber production and previous research and development efforts will not be resumed. While the Company has engaged the process of marketing the TCS System to numerous potential clients since the beginning of the fiscal year commencing July 1, 2000, as of December 31, 2003, the Company had not yet consummated an unconditional purchase order for a TCS System.

The Company is dependent on the success of its marketing of its TCS Plants, and/or raising funds through equity sales, bank or investor loans, governmental grants or a combination of these, to continue as a going concern. The Company's uncertainty as to its ability to generate

revenue and its ability to raise sufficient capital, raise substantial doubt about the entity's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Note 3. FINANCING COST

During the year ended June 30, 1999, the Company incurred costs of \$158,255 in connection with debt financing. These costs have been capitalized in other assets and are being amortized over the terms of the financing. Amortization of financing costs for the year ended June 30, 2000 was \$125,291, reducing this account balance to zero. During the year ended June 30, 2001, the Company incurred costs of \$180,557 in connection with debt financing. These costs have been capitalized in other assets and are being amortized over the terms of the financing. Amortization of financing costs for the years ended June 30, 2002 and June 30, 2001 was \$100,614 and \$79,943, respectively, reducing this account balance to zero.

Note 4. PROPERTY AND EQUIPMENT

As at December 31, 2003, plant and equipment consisted of the following:

| | |
|-----------------------------------|-----------|
| Furniture, fixtures and equipment | \$149,516 |
|-----------------------------------|-----------|

Edgar Filing: TIREX CORP - Form 10QSB

| | |
|---|-----------|
| Manufacturing equipment | 62,400 |
| Subtotal | 211,916 |
| Less: Accumulated depreciation and amortization | 161,916 |
| Total | \$ 50,000 |

Depreciation and amortization expense charged to operations for the year ended June 30, 2003 was \$24,960. Depreciation and amortization expense charged to operations for the three month period ended December 31, 2003 was zero.

Note 5. GOVERNMENT LOANS

Canada Economic Development

Loan payable under the Industrial Recovery Program for Southwest Montreal amounting to 20% of certain eligible costs incurred (maximum loan \$333,300) repayable over four years commencing March 31, 1999 and ending March 31, 2002, unsecured and non-interest bearing. (If the Company defaults, the loans become interest bearing).

Loans payable under the Program for the Development of Quebec SMEs based on 50% of approved eligible costs for the preparation of market development studies in certain regions. Loans are unsecured and non-interest bearing. (If the Company defaults, the loans become interest bearing).

| | |
|---|-----------|
| Loan repayable over five years commencing June 30, 2000 and ending June 30, 2004 | \$ 34,300 |
| Loan repayable over five years commencing June 30, 2001 and ending June 30, 2005 | 43,791 |
| Loan repayable in amounts equal to 1% of annual sales in Spain and / or Portugal throughout June 30, 2007, to a maximum of the balance of the loan outstanding. If no sales occur on or before this date in Spain and Portugal, the loan will become non-repayable. | 14,000 |
| Loan repayable in amounts equal to 189% of annual sales in Spain and / or Portugal through June 30, 2004 to a maximum of the balance of the loan outstanding. If no sales occur before this date in Spain and Portugal, the loan will become non-repayable. | 66,500 |
| | 158,591 |
| Less: Current portion | 71,511 |
| Long-term portion | \$ 87,080 |
| Principal repayments are as follows: | |
| <u>June 30</u> | Amount |
| 2004 | \$71,511 |
| 2005 | 20,580 |
| 2006 | - |
| 2007 | 66,500 |
| | \$158,591 |

Note 6. CAPITAL LEASE OBLIGATIONS

Edgar Filing: TIREX CORP - Form 10QSB

The Company leases certain manufacturing equipment under agreements classified as capital leases. The cost and the accumulated amortization for such equipment as of June 30, 2002 was \$62,400 and \$37,440, respectively. The accumulated amortization for such equipment as of June 30, 2003 and 2002 was \$62,400 and \$37,440, respectively. The equipment under capital leases has been included in property and equipment on the balance sheet. The Company is in arrears on payment of these leases but default has not been declared. The leased equipment is not part of the Company's TCS System prototype.

The following is a schedule by years of future minimum lease payments under capital leases of equipment together with the obligations under capital leases (present value of future minimum rentals) as at December 31, 2003:

| <u>Years ended June 30</u> | Amount |
|---|---------|
| 2004 | \$7,757 |
| Total minimum lease payments | 7,757 |
| Less: Amount representing interest | 1,399 |
| Total obligations under capital lease | 6,358 |
| Less: Current portion of obligations under capital leases | 6,358 |
| Long-term obligation portion of under capital leases, with interest rate of 10% | \$ - |

Note 7. CONVERTIBLE SUBORDINATED DEBENTURES

The Company issued Type B Convertible Subordinated Debentures between December 1997 and February 1998. These debentures bore interest at 10% and were convertible into common shares of the Company at \$0.20 per share. The conversion privilege on the remaining \$55,000 of these debentures expired and the amount is now included on the Balance Sheet in Long term deposits and notes.

Note 8. CONVERTIBLE NOTES

The Convertible Notes appearing on the balance sheet consisted of an investment arrangement with a group of institutional investors involving a multi-stage financing under which the Company had access to, at its option, up to \$5,000,000. A first tranche of \$750,000 was completed but no further draw downs were made. The terms of the convertible note were:

| | |
|--|---|
| Balance at December 31, 2003 and June 30, 2003 | \$586,356 |
| Interest rate | 8%, payable quarterly, commencing June 30, 2001 |
| Issue date | February 26, 2001 |
| Maturity date | February 26, 2003 |
| Redemption rights | If not converted, the holder may require the Company to redeem at any time after maturity for the principal amount plus interest. |
| Conversion ratio | Lower of (i) - 80% of the average of the three lowest closing bid prices for the thirty trading days prior to the issue date, which equals \$.073, or (ii) - 80% of the average of the three lowest closing bid prices for the sixty trading days prior to the conversion date. |

Edgar Filing: TIREX CORP - Form 10QSB

| | |
|-----------------------|---|
| Common stock warrants | The Convertible Notes carried an option to purchase Common stock warrants at the rate of one Warrant for each \$1.25 of purchase price. The exercise price on the first tranche of \$ 750,000 is \$.077 per share. |
|-----------------------|---|

Certain Directors and Officers of the Company have pledged approximately 12,000,000 of their personal shares of Common Stock of the Company as security for the Convertible Notes until such time as the Company files with the Securities and Exchange Commission a Registration Statement on Form SB-2, to register common stock and warrants issuable upon the conversion of the notes, no later than 150 days after the issue date of the Convertible Notes. This deadline was not met and, as such, the investors served a notice of default to the Company on July 19, 2001. The Registration Statement has still not been declared effective by the Securities and Exchange Commission as of this date, and until such occurs, the Convertible Notes cannot be converted to Common Stock nor may the Common Stock warrants be exercised. On April 24, 2002 the Company entered into a Settlement Agreement with the Note holders. In the event of a default under the Settlement Agreement, the term of the Convertible Notes would become effective once again. The conclusion of the Settlement Agreement has negated the default. The main terms of the Settlement Agreement are as follows:

| | |
|--|--|
| Amount due including interest calculated to June 30, 2002 and penalties to date, and deducting proceeds from the sale of collateral shares in the amount of \$16,260 | \$932,240 |
| Interest rate on the debt | 8% |
| Repayment terms | \$1,000 on May 15, 2002 \$1,000 on June 15, 2002 \$38,843.33 each month for up to twenty-four months starting August 1, 2002 |
| Warrants for purchase of common shares | 500,000 three-year warrants exercisable immediately at a price of \$0.01 per share. 500,000 two-year warrants exercisable one year from the date of the Settlement Agreement at a price of \$0.05 per share. 500,000 one-year warrants exercisable two years from the date of the Settlement Agreement at a price of \$0.10 per share. |
| Right to sell collateral shares and Rule 144 shares | The Investors have the right to sell up to 600,000 collateral shares and / or Rule 144 shares per month, with proceeds to be first applied against interest and fees and thereafter against principal. |
| Right of prepayment | The Company has the right to pay amounts in excess of the prescribed monthly amount, without penalty. |
| Collateral shares | As of the date of signing of the Settlement Agreement, the Investors had 10,790,885 Collateral Shares in their possession. |

Edgar Filing: TIREX CORP - Form 10QSB

During the year ended June 30, 2002, the Company authorized the investors to sell 1,800,000 of the shares per quarter held as security.

Note 9. CONVERTIBLE NOTE

A convertible note, under a private arrangement, consists of the following:

| | |
|------------------------------|--|
| Balance at December 31, 2003 | \$ 185,556 |
| Interest rate | 8% |
| Issue date | July 19 th , 2000 |
| Maturity date | January 19 th , 2002 |
| Redemption rights | If not converted, the holder may require the Company to redeem at any time after maturity for the principal amount plus interest. |
| Conversion ratio | Not convertible prior to July 19 th , 2001, at 20% discount to market between July 19 th , 2001 and January 19 th , 2002 or at 25% to market if held to maturity, to a maximum of not more than 2,500,000 shares. |

Note 10. RELATED PARTY TRANSACTIONS

Convertible loans include amounts primarily due to Directors, Officers and employees. Historically, such amounts due have been repaid through the issuance of stock. At December 31, 2003 and June 30, 2003, the balances owing to Directors and Officers was \$1,106,962 and \$919,462, respectively. These amounts are without interest or terms of repayment.

Various Notes Receivable from Officers, separately reported on the audited balance sheet as of June 30, 2000, plus accrued interest thereon, were offset against amounts due to these Officers as of June 30, 2001.

Long-term deposits and notes included an amount of \$118,500 at December 31, 2003, which is payable to Ocean Tire Recycling & Processing Co., Inc., a company owned by a Director of the Company.

Subsequent to June 30, 2000, the Company modified an agreement with Ocean Tire Recycling & Processing Co., Inc. to clarify various terms of the parties' prior agreements and to obtain a commitment by Ocean Tire Recycling & Processing Co., Inc. to pay, when necessary, lease payments on the prototype TCS System. As part of the agreement, the Company will repay Ocean Tire Recycling & Processing Co., Inc. in cash or through the issuance of stock. The lease payments, under the accounting provisions for an operating lease, have been recorded as a Research and Development expense and the debt obligation included in loans from related parties. During the year ended June 30, 2001, 6,500,000 common shares were issued under the agreement as a partial Settlement. During the year period ended June 30, 2002, an additional 4,553,102 common shares were issued under the agreement to a designated person assigned by Ocean Tire Recycling & Processing Co., Inc.

Note 11. EXCHANGE OF DEBT FOR COMMON STOCK

During the year ended June 30, 2003, the Company recorded an increase in common stock and paid-in capital of \$456,583 representing issuances of stock in lieu of cash payments for debts owed. During the six month period ended December 31, 2003, the Company did not record any increase in common stock and additional paid-in capital.

Note 12. COMMON STOCK

During the year ended June 30, 2003, the Company issued common stock in exchange for services performed totaling \$136,375. The amount for the year ended June 30, 2003 did not include any payments to Officers of the Company in exchange for salary and expenses. During the six month period ended December 31, 2003, the Company issued common stock in exchange for services performed totaling zero. The amount for the six month period ended December 31, 2003 did not include any payments to Officers of the Company in exchange for salary and expenses. The dollar amounts assigned to such transactions have been recorded at the fair value of the services received.

On January 31, 2001, the Company's stockholders approved an amendment to the Articles of Incorporation of the Company to increase the number of authorized shares of common stock, par value \$0.001, from 165,000,000 shares to 250,000,000 shares.

As at December 31, 2003, the Company had 249,895,892 Common shares issued and outstanding.

Note 13. STOCK PLAN

The Company established a Stock Plan in June of 2000 whereby key personnel of the Company, consultants and other persons who have made substantial contributions to the Company may be issued shares as compensation and incentives through Awards, Options or Grants under the terms set forth in the Stock Plan. The Stock Plan originally called for the issuance of a maximum of 7,000,000 shares of stock as Awards, the issuance of a maximum of 7,000,000 shares of stock to underlie Options and the issuance of a maximum of 7,000,000 shares of stock that may be issued as Grants. Awards and Options can only be given to individuals who have been either in the employ of the Company, an

Officer, Director or consultant for the preceding six months Awards are not fully vested until the end of three years with one-twelfth of the aggregate award vesting at the end of each quarter. If the Awardee is terminated for cause or resigns, the unvested portion of the award is forfeited. Options can be exercised at any time and upon exercise, the underlying stock is fully vested with the purchaser. The Options are not transferable and are exercisable for two years after which time they expire. If the Optionee is terminated for cause or resigns, all unexercised options are forfeited. A Grant can only be given to persons who have made a substantial contribution to the Company and the shares are not forfeitable. On January 31, 2001, the Company amended the Stock Plan providing for an additional 3,000,000 shares being allocated as Grants and an additional 2,000,000 shares allocated to be given as Options. On May 30, 2001, the Stock Plan was further amended reallocating the 7,000,000 shares to be given as Awards to allow 5,000,000 of the shares to be used for Options and 2,000,000 of the shares to be used as Grants. There were no stock issuances under the Stock Plan for the year ended June 30, 2000.

During the year ended June 30, 2001, the Company issued 9,300,000 shares as Grants under the Stock Plan at an average stock price of \$.093 for an aggregate consideration of \$867,374. During the year ended June 30, 2002, the Company issued 750,000 shares as Grants under the Stock Plan at an average stock price of \$.016 for an aggregate consideration of \$12,031.

During the year ended June 30, 2001, the Company had the following transactions as Options under the Stock Plan:

| | Number of Shares | Avg. exercise price | Aggregate consideration |
|---|---------------------|------------------------|----------------------------|
| Granted and unexercised at beginning of year | Nil | - | - |
| Granted and exercised during the year | 9,698,228 | \$ 0.131 | \$ 1,273,334 |

Edgar Filing: TIREX CORP - Form 10QSB

| | | | |
|---|-----|---|---|
| Granted and unexercised at end of year | Nil | - | - |
|---|-----|---|---|

The exercise price at the time the Options were granted and exercised was approximately equal to the market price at that time.

There were no Options granted or exercised during the year ended June 30, 2002. There were no Options granted or exercised during the year ended June 30, 2003.

Note 14. CONVERTIBLE DEBT

In the event that holders of convertible rights of option exercise such rights of conversion, the Company does not have sufficient number of authorized shares conversion stock to fulfill such obligations and a shareholder meeting would be required to approve the additional authorized number of shares. There is no assurance that the shareholders would approve the increase to the number of authorized shares of stock to meet the conversion obligations under the various conversion agreements or options.

Note 15. ACQUISITION BY MERGER OF RPM INCORPORATED

During November 1997, the Company entered into a merger agreement with RPM Incorporated ("RPM"). The Company acquired all of the assets and liabilities of RPM by acquiring all of the outstanding common stock of RPM in exchange for common stock in the Company on a unit for unit basis. RPM ceased to exist following the exchange.

The assets and liabilities acquired by the Company from RPM consisted of the proceeds from the sale of debentures of \$535,000. The financing fees on the issuance of the debentures, totaling \$61,755, were Included as an expense in the statement of operations for the year ended June 30, 1998. A total of 535,000 shares were issued as a result of the merger valued at \$16,050. A total of \$16,050 was received for this stock.

The Company entered into an additional agreement with the former shareholders of RPM for consulting services for a period of 5 years expiring in June 2002. Pursuant to this consulting agreement, 3,000,000 shares of common stock were issued valued at \$240,000. Other than the consulting agreement and the issuance of the debentures, RPM was inactive.

For accounting purposes, the Company recorded the merger as a purchase and not as a pooling of Interests.

Note 16. GOVERNMENT ASSISTANCE

The Company is eligible for and has made claims for tax credits related to scientific research and experimental development expenditures made in Canada. These amounts, under Canadian Federal and Provincial tax law in conjunction with its annual tax return filings, need not be offset against taxes otherwise payable to become refundable to the Company at the end of its fiscal year. As such, during the year ended June 30, 2003, the Company received approximately \$246,970, which has been recorded as an increase in stockholders' equity paid-in capital. During the six month period ended December 31, 2003, the Company did not receive any tax credits. Also, during the six month period ended December 31, 2003, the Company did not record any additional tax credits bringing the reported receivable balance from these governments from \$246,970 as of June 30, 2002 to zero as of June 30, 2003 and December 31, 2003.

Note 17. COMMITMENTS

The Company leased office and warehouse space at an annual minimum rent of \$80,000 for the first year, \$160,000 for the second year and \$200,000 per year for the third through the fifth years. The lease expired in 2003. The

Company was responsible for its proportionate share of any increase in real estate taxed and utilities. Also, under the terms of the lease, the Company was required to obtain adequate public liability and property damage insurance.

The lease contained a second ranking moveable hypothec in the amount of \$300,000 on the universality of the Company's moveable property.

Rental expense for the year ended June 30, 2003 amounted to \$124,442. Rental expense for the six month period ended December 31, 2003 amounted to zero.

At December 31, 2003, the Company was in arrears of rent, including interest and related charges, in the approximate amount of \$560,000.

Note 17. LITIGATION

An action was instituted by Plaintiffs, a Canadian resident and a Canadian corporation, in a Canadian court alleging a breach of contract and claims damages of approximately \$508,600 representing expenses and an additional approximate amount of \$1,874,000 in loss of profits. The current action follows two similar actions taken in United States courts, the first of which was withdrawn and the second of which was dismissed based on forum non convenience and other considerations. A detailed answer has been filed by the Company denying all liability, stating further that Plaintiffs failed to comply with their obligations. Counsel for the Company believes that the Company has meritorious defenses to all of the Plaintiff's claims. The action is still pending.

A Plaintiff instituted an action, a Canadian corporation, in August 2001 in a Canadian court claiming approximately \$63,000 is due and owing for the manufacture and delivery of tire disintegrators. The Company has prepared its defense and a cross claim against the Plaintiff as the product delivered was defective and the Company believes it is entitled to a reimbursement of sums paid. The action is still pending.

An action was instituted by a Plaintiff, the Company's landlord, against the Company in June 2001 for arrears of rent in the amount of approximately \$113,900. The Company is currently in negotiation with its landlord and the action is still pending. As at June 30, 2003, the Company was in arrears of rent and property taxes to its landlord in the amount of approximately \$560,000.

Note 18. ACCUMULATED OTHER COMPREHENSIVE INCOME

The deficit accumulated during the development stage included accumulated comprehensive other income totaling \$103,396.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of significant factors which have affected the Company's financial position and operations during the three and six month periods ended December 31, 2003. This discussion also includes events which occurred subsequent to the end of the last quarter and contains both historical and forward-looking statements. When used in this discussion, the words "expect(s)", "feel(s)", "believe(s)", "will", "may", "anticipate(s)", "intend(s)" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected.

As reported in the Company's Annual Report for the year ended June 30, 2003, filed in October 2003 on Form 10-KSB, the Company's TCS Tire Recycling System has been ready for market since March of 2000, although further refinements were made to the technology during the remainder of Fiscal 2001 and throughout Calendar 2002. Throughout that period the availability of funds necessary to permit developmental stage companies, such as ours, to make the transition to the commercial stage has been very restricted. The Company was late in filing its September 2002 Form 10-Q on a timely basis, which resulted in our stock being removed from the Bulletin Board to be shown as OTC-Other, in which category the "Bid" and "Ask" are not shown. The Company intends to attempt to rectify this situation and apply for re-listing on the OTC Bulletin Board as soon as practicable.

On the business development side, we have continued to encounter serious difficulties in realizing our first system sale, as has our licensee, Simpro. The substantial cost of a TCS-2, combined with its lack of a substantial production track record represent obstacles to the sales efforts. Furthermore, the increase in value of the Euro versus the US dollar has also been detrimental to the sales efforts. Our systems' being manufactured by Simpro, their costs are primarily Euro-based. One year ago, one Euro cost approximately US\$0.97; today, one Euro costs approximately US\$1.25. This foreign exchange differential on the price of the installed system thus represents a close to 30% increase in cost, for those potential customers who would normally be purchasing systems in US dollars, without any commensurate increase in capacity or functionality of the system. We are discussing different ways to attenuate this increase with Simpro. Euro currency customers and those other potential customers whose currencies have also appreciated against the US dollar are unaffected.

For the past year and a half, the Company has been working with a Puerto Rican entrepreneur interested in purchasing a TCS-2, but having difficulty in finding an investor partner, necessary to complete his project financing package. To date, no appropriate investor partner has been found.

Simpro has also been working on several potential sales in South America and elsewhere, either directly or through intermediaries. It has been represented to us that discussions in some cases have reached an advanced stage, but, as of the date of this Report, no unconditional sales contracts had been signed.

Over a year ago, we had been negotiating with a Canadian entrepreneur for the installation of a TCS-2 in Quebec. The entrepreneur in question decided to install a different technology, seemingly with considerable quantities of used equipment. However, the project initially conceived remains viable, and we are working with a Montreal-based consulting firm to bring in investors to support such a Quebec-based facility. The business plan for such a facility has been completed and the consultants are presenting the plan to potential investors from both the public and private sectors. To date, while interest has been demonstrated, no investors have committed to any such project. We remain hopeful that such investors will be found, but we cannot guarantee that this will occur.

We continue to respond to information requests with respect to our TCS systems from numerous sources. While the volume of such requests would indicate continued significant interest in our technology, there can be no assurances that any of these requests will proceed to actual negotiations for a system sale, nor that any sales contracts would

actually be concluded.

With the suspension of rubber crumb production operations in January of 2002 and the concurrent reduction of R&D activity, we have devoted all of our efforts to being able to conclude a sale of a TCS System and to the raising of necessary funds to keep the Company operational until revenue from sales can be realized.

In February of 2001, we concluded a private financing with an investor group managed by a New York-based company. Under the terms of the Agreement, we drew down \$750,000 of the available \$5,000,000 amount. The initial \$750,000 was provided in the form of a Convertible Note. We defaulted by not having an SB-2 Registration Statement declared effective within 150 days of the date of the Note. Following lengthy negotiations, we reached a Settlement Agreement with the investors on April 26, 2002 under which the Company agreed to a reimbursement schedule and provided three series of warrants, 500,000 each, exercisable at different prices to the investors. The lack of financial resources prevented us from being able to honor the reimbursement schedule, and thus we are currently in default with respect to the Settlement Agreement. On March 5, 2003, the Investors sent to us by FAX, demand letters of payments due for each of the three investor funds involved in the initial transaction, these letters being dated February 25 and February 26, 2003, being the two-year anniversary date of their investment. The amount currently due, including accrued interest included in accrued liabilities, penalties and fees, and after realization on collateral shares and conversion of debt into 4,000,000 common shares, is approximately \$600,000. The Company is not in a position to pay this sum. The Investors continue to hold 8,344,811 collateral shares as of

January 20, 2004 plus the 4,000,000 conversion shares. The Company is working with the Investors to establish those conditions, related to the development of the business, such that remaining cash sums can be paid over time.

Because of the lengthy delay preceding the commencement of commercial operations, particularly insofar as regards the sale and manufacturing of TCS Systems is concerned, we have had to, and in the foreseeable near future, will be forced to continue to cover a substantial part of our overhead costs from sources other than revenues from operations. At present, we have no cash and no cash flow from operations. Since relocating to our current premises, our monthly cash requirements have been reduced to negligible amounts. Most of the expenses listed on our Income Statement relate to salary accruals.

Liquidity and Capital Resources

The activities of the Company, since its formation in 1987, and the inception of its current business in 1993 have been financed by sources other than operations. Such financing was principally provided by the sale of securities in private transactions and by additional capital investments by directors, officers and employees. During the six month period ended December 31, 2003, directors, officers, employees and consultants did not make any direct cash investments into the Company. During the Fiscal year ended June 30, 2002, direct cash investments made by the directors, officers, shareholders and consultants amounted to \$950,713, but no such investments have occurred since that date.

As of December 31, 2003, the Company had total assets of \$233,333 as compared to \$653,029 at December 31, 2002 reflecting a decrease of \$419,696, and a decrease of \$2 versus total assets as of the last fiscal year end, June 30, 2003, which amounted to \$233,335. Management attributes the decrease from December 31, 2002 to December 31, 2003 primarily to the following factors: (i) a decrease of \$126,428 in Tax Credits Receivable from the balance as of December 31, 2002 in the amount of \$126,428 to the balance as of December 30, 2003 in the amount of \$Nil, and (ii) a decrease of \$37,067 in Sales Tax Receivable from the balance as of December 31, 2002 in the amount of \$37,103 to the balance as of December 31, 2003 in the amount of \$36, and (iii) a decrease of \$240,077 in Prepaid Expenses and Deposits from the balance as of December 31, 2002 in the amount of \$240,077 to the balance as of December 31, 2003 in the amount of \$Nil, and (iv) a decrease of \$28,751 in Accounts Receivable from the balance as of December 31, 2002 in the amount of \$28,751 to the balance as of December 31, 2003 in the amount of \$Nil, and (v) an increase of \$10,693 in Inventory from the balance as of December 31, 2002 in the amount of \$62,629 to the balance as of December 31, 2003 in the amount of \$73,322, and (vi) an increase of \$1,935 in Notes Receivable from the balance as

of December 31, 2002 in the amount of \$18,540 to the balance as of December 31, 2003 in the amount of \$20,475. There were no significant differences attributable to asset balances from June 30, 2003 to December 31, 2003.

As of December 31, 2003, the Company had total liabilities of \$4,109,505 as compared to \$4,398,849 at December 31, 2002, reflecting an increase of \$289,344, and reflecting an increase of \$14,705 versus total liabilities as of the last fiscal year end, June 30, 2003, which total amounted to \$4,094,800. The decrease in total liabilities from December 31, 2002 to December 31, 2003 is primarily attributable to a decrease of \$345,884 in Convertible Notes, by a decrease of \$161,919 in Loans from Related Parties, by a decrease of \$44,078 in Government Loans and by an increase in Accounts payable and Accrued Liabilities in the amount of \$232,326. The increase in total liabilities from June 30, 2003 to December 31, 2003 is primarily attributable to an increase of \$180,290 in Accounts Payable and Accrued Liabilities, to an increase of \$187,501 in Loans from Related Parties and to a decrease of \$345,884 in Convertible Notes.

Reflecting the foregoing, the financial statements indicate that as at December 31, 2003, the Company had a working capital deficit (current assets minus current liabilities) of \$1,956,758 compared to a working capital deficit of \$1,477,166 as at December 31, 2002, reflecting an increase of \$479,592. The working capital deficit of \$1,956,758 as at December 31, 2003 compares to a working capital deficit of \$1,783,667 as at June 30, 2003, reflecting an increase of \$173,091.

Results of Operations

The financial statements which are included in this report reflect total operations and other expenses of \$307,269 for the six month period ended December 31, 2003 versus \$951,077 for the comparative six month period ended December 31, 2002, reflecting a decrease of \$643,808. The Company has ceased Research and Development activities thereby resulting in a decrease in personnel expenses and other Research and Development expenses and for the six month period ended December 31, 2002, incurred a charge of \$530,651 to write down Property and Equipment to its salvage value.

The activities of the Company, since its formation in 1987, and the inception of its current business in 1993 have been financed by sources other than operations. Such financing was principally provided by the sale of securities in private transactions and by additional capital investments by directors, officers and employees. During the six month period ended December 31, 2003, directors, officers, employees and consultants did not make any direct cash investments into the Company. During the Fiscal year ended June 30, 2003, direct cash investments made by the directors, officers, shareholders and consultants amounted to \$950,713.

PART II: OTHER INFORMATION

Item 1:

Item 1 - Legal Proceedings

We are presently a party in the following legal proceedings, the status of which has not changed since the Company filed its last Quarterly Report on Form 10-QSB for the first quarter of Fiscal 2004.

IM(2) Merchandising and Manufacturing, Inc and David B. Sinclair v. The Tirex Corporation, Tirex Corporation Canada, Inc., et al.

The Plaintiffs, a Canadian resident and a Canadian corporation sued in the Delaware, U.S. Federal District Court claiming fraud, breach of contract, unjust enrichment and other allegations, that the alleged Defendants, which include Tirex Corporation Canada and The Tirex Corporation, jointly conspired to profit from their failure to comply with terms of a manufacturing agreement. The monetary demand of this complaint was unspecified. We were prepared to

Edgar Filing: TIREX CORP - Form 10QSB

move to dismiss Plaintiffs' Complaint, but after consultations with the Plaintiffs' Attorneys, the Plaintiffs' withdrew this complaint voluntarily. Plaintiffs later filed a second action in the Chancery Court of Delaware alleging certain of the same allegations; fraud, breach of contract, unjust enrichment, breach of fiduciary duty and misrepresentation, but eliminated other counts including the securities fraud allegations. The Defendants in the State Court action are the same named in the Federal Court action, and again the monetary damages are unspecified. We moved to dismiss the State Court Chancery case alleging defective service of process and asserting that the Court had no jurisdiction over the Defendants in Delaware and for removal of the case to Canada based on forum non-convenience and other considerations. Our motion was granted and the case dismissed.

Subsequently, on or about April 25, 2001, the Plaintiffs instituted a lawsuit in Superior Court, judicial district of Montreal alleging breach of contract and claims damages of Canadian\$794,690 (approximately US\$612,000 at current exchange rates) representing expenses and an additional Canadian\$5,411,158 (approximately US\$4,167,000 at current exchange rates) in loss of profits. We have filed a detailed answer denying all liability, stating further that Plaintiffs failed to comply with their obligations. We believe we have meritorious defenses to all of the Plaintiffs' claims. The action is still pending.

Lefebvre Freres Limited v. The Tirex Corporation

Lefebvre Freres Limited instituted an action against us on August 13, 2001 in the Superior Court, judicial district of Montreal claiming CA\$98,513 (approximately US\$75,850 at current exchange rates) is due and owing for the manufacture and delivery of car tire disintegrators. We are preparing a defense and cross claim against Plaintiff as the product delivered was defective and we believe we are entitled to a reimbursement of sums paid. The action is still pending.

Tri-Steel Industries Inc. v. The Tirex Corporation

Our former landlord Tri-Steel Industries Inc. instituted an action against us, and our subsidiaries Tirex Corporation Canada Inc. and Tirex Canada R & D Inc., on or about June 22, 2001 for arrears of rent in the amount of Canadian\$230,050 (approximately US\$147,232 using the then prevailing approximate exchange rate of \$0.64). The premises were vacated by us as of November 2002. The former landlord has accepted that he would be repaid out of future cash flows and that the premises lease would be terminated effective December 31, 2002. As at December 31, 2002, the Company was in arrears of rent and property taxes to its previous landlord in the amount of Cdn\$876,268.79 (approximately US\$5690,000 at the then prevailing exchange rates). The Company came to an agreement with the landlord under which the debt would be fixed in US dollars at \$560,000, thus cancelling exchange rate fluctuation risks, and that this amount would not be interest-bearing providing Tirex would direct the payment directly to the landlord of US\$140,000 out of the Company's share of the proceeds on the first four sales of TCS Systems. Each \$140,000 will be progressively paid out as a function of cash inflows from progress payments made by the customers.

No director, officer, or affiliate of the Company, or any associate of any of them, is a party to or has a material interest in any proceeding adverse to us.

Item 2: - Changes in Securities and Use of Proceeds

Share Issuance Continuity Schedule

| | |
|---|-------------|
| Shares issued and outstanding as of June 30, 2003 | 249,895,892 |
| Total Issuances in the First Half of FY 2004 | nil |

Total Outstanding as of December 31,
2003

249,895,892

Item 3 - Defaults Upon Senior Securities

During 1998, we issued an aggregate of \$535,000 of two (2) year convertible, subordinated debentures bearing interest at the rate of 10%. Interest thereon was due and payable semi-annually commencing six months from the date of issuance. All debentures have either been converted or repaid, except for debentures in the principal amount of US\$55,000, which remain outstanding and on which principal and interest, which has accrued since the issuance of the debentures, are now due. On debentures converted subsequent to December 1999, interest was capitalized and converted to equity. Although the conversion option on the outstanding debentures has lapsed, we intend to extend the conversion dates of these debentures upon the request of the holders.

As indicated above, in February of 2001, we concluded a private financing with an investor group managed by a New York-based company. Under the terms of the Agreement, we had the contractual right to require the Investor to purchase up to US\$5,000,000 of put notes and we drew down US\$750,000, which was provided in the form of a Convertible Note. Under the terms of the Agreement, we were required to file and have declared effective a Registration Statement on Form SB-2 within 150 days of the Closing Date of the Agreement. As of June 25, 2001, we were in technical default for failing to have an effective Registration Statement on record with the Securities and Exchange Commission. We were advised of the default in mid-July 2001. The SB-2 Registration Statement which we had submitted to the SEC was subsequently withdrawn.

Following lengthy negotiations, we reached a Settlement Agreement with the investors on April 26, 2002 under which we agreed to a reimbursement schedule and provided three series of warrants, 500,000 each, exercisable at different prices to the investors. The lack of financial resources prevented us from being able to honor the reimbursement schedule, and thus we are currently in default with respect the Settlement Agreement.

On March 5, 2003, the Investors sent to us by FAX, demand letters of payments due for each of the three investor funds involved in the initial transaction, these letters being dated February 25 and February 26, 2003, being the two-year anniversary date of their investment. After taking into consideration the proceeds of sales of collateral shares, share conversions and accumulating interest, the sum total due, including interest, penalties and fees, as of September 30, 2003 was \$586,356. Accrued interest of approximately \$12,000 is included in accrued liabilities. As of September 30, 2003, the investors had in their possession 3,190,977 collateral shares plus 4,000,000 shares converted from the debt. The Company is not in a position to pay this sum of cash due. The Company is working with the Investors to establish those conditions, related to the development of the business, such that these sums can be paid over time. The Investors also sent a request to convert the debt. There can be no guarantee that the investors will continue to not take legal recourse against the Company and that the anticipated cash availability to support a re-negotiated Settlement Agreement will actually be available

Item 4 - Submission of Matters to a Vote of Security Holders

During the three-month period ended December 31, 2003, there were no submissions of matters to a vote of Security Holders.

Item 6 - Exhibits and Reports on Form 8-K

Exhibits

No exhibits are filed with this report

Reports on Form 8-K

During the three month period ended December 31, 2003, there were no Reports on Form 8-K filed by the Company.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE TIREX CORPORATION

Date: February 17, 2004

By /s/ John L. Threshie, Jr.
John L. Threshie, Jr. President

Date: February 17, 2004

By /s/ Michael Ash
Michael Ash, Treasurer and
Chief Accounting and Financial Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE, ACCOUNTING AND FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of The Tirex Corporation (the "Company") on Form 10-QSB for the period ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John L. Threshie Jr., President of the Company, hereby certify pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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 the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN L. THRESHIE JR.

John L. Threshie Jr.
President
February 17, 2004