

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10QSB

NORTHSTAR ELECTRONICS INC

Form 10QSB

May 14, 2003

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES  
AND EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from n/a to n/a

333-90031

Commission file number

Northstar Electronics, Inc.

Exact name of small business issuer as specified in its charter

Delaware

State or other jurisdiction of organization

#33-0803434

IRS Employee incorporation or Identification No.

Suite # 1455- 409 Granville Street,

Vancouver, British Columbia,

Canada V6C 1T2

Address of principal executive offices

(604) 685-0364

Issuer's telephone number

Not Applicable

Former name, former address and former fiscal year, if changed since last report

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be  
filed by Section 12, 13 or

15(d) of the Exchange Act after the distribution of securities under a plan  
confirmed by a court.

Yes  No  Not Applicable

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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NORTHSTAR ELECTRONICS, INC.

Consolidated Financial Statements

Three Months Ended March 31, 2003

U.S. Dollars

Unaudited

Prepared by management

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Consolidated Balance Sheets at March 31, 2003 and at December 31, 2002

Consolidated Statements of Operations for the Three Months Ended March 31, 2003

Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2003

Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2003

Notes to Consolidated Financial Statements

NORTHSTAR ELECTRONICS, INC.  
Consolidated Balance Sheets  
Unaudited  
U.S. Dollars

	March 31 2003	December 31 2002 - audited
	-----	-----
<b>ASSETS</b>		
Current		
Cash	\$495,944	\$117,690
Receivables	322,778	345,454
Inventory and work in progress	192,940	147,846
Prepaid expenses	8,336	4,682
	-----	-----
Total Current Assets	1,019,998	615,672
Property and Equipment	129,781	138,071
	-----	-----
Total Assets	\$1,149,779	\$753,743
	-----	-----
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$253,267	\$418,555
Loans payable	50,000	72,863
Current portion of long term debt	64,243	62,079
	-----	-----
Total Current Liabilities	367,510	553,497

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Long term debt	611,906	429,309
Due to Cabot Management Limited	72,550	70,105
Due to Director	44,460	140,297
	-----	-----
Total Liabilities	1,096,426	1,193,208
	-----	-----
STOCKHOLDERS' EQUITY		
Common Stock		
Authorized		
100,000,000 shares of common stock with a par value of \$0.0001 each		
20,000,000 shares of preferred stock with a par value of \$0.0001		
each		
Issued and outstanding		
14,051,942 shares of common stock	1,405	1,191
(11,907,976 December 31, 2002)		
Additional paid in capital	2,818,515	2,179,624
Other comprehensive income (loss)	(5,024)	25,213
Deficit	(2,761,543)	(2,645,493)
	-----	-----
Total Stockholders' Equity (Deficit)	53,353	(439,465)
	-----	-----
Total Liabilities and Stockholders' Equity	\$1,149,779	\$753,743
	-----	-----

NORTHSTAR ELECTRONICS, INC.  
Consolidated Statements of Operations  
Three Months Ended March 31  
Unaudited  
U.S.Dollars

	Three Months	
	2003	2002
	----	----
Sales	\$323,118	\$197,252
Cost of goods sold	148,913	110,788
	-----	-----
Gross margin	174,205	86,464
Recovery of research and development	73,406	-
Other income	524	6,160
	-----	-----
	248,135	92,624
	-----	-----
Expenses		
Salaries	137,221	114,637
Financial consulting	90,163	93,288
Management services	-	28,603
Professional fees	15,307	19,819
Advertising and marketing	22,054	14,013
Rent	24,222	23,759
Investor relations	22,983	13,716
Office	13,965	11,038
Travel and business development	7,159	9,350
Interest on debt	8,351	9,570
Telephone and utilities	10,691	8,400
Proposal development costs	-	7,012
Repairs and maintenance	2,975	4,032
Amortization	5,405	1,840
Bank charges and interest	2,654	1,056
Transfer agent	1,035	270
	-----	-----
	364,185	360,403

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Net (loss) for period	\$ (116,050)	\$ (267,779)
Net (loss) per share	\$ (0.01)	\$ (0.03)
Weighted average number of shares outstanding	12,622,631	8,267,963

NORTHSTAR ELECTRONICS, INC.  
Consolidated Statement of Changes in Stockholders' Equity  
Three Months Ended March 31, 2003  
Unaudited  
U.S. Dollars

	Shares	Amount	Addit- ional Paid in Capital	Other Compre- hensive Income	Accumu- lated Deficit	Total Stockholder Equity (Deficit)
-----						
Balance December 31, 2002	11,907,976	\$1,191	\$2,179,624	\$25,213	\$ (2,645,493)	\$ (439,465)
Net loss for three months	-	-	-	-	(116,050)	(116,050)
Other comprehensive income (debits)	-	-	-	(30,237)	-	(30,237)
Issuance of common stock for cash	1,935,570	193	827,454	-	-	827,647
Issuance of common stock for services	208,396	21	93,553	-	-	93,574
Share issue Costs	-	-	(282,116)	-	-	(282,116)
-----						
Balance March 31, 2003	14,051,942	\$1,405	\$2,818,515	\$ (5,024)	\$ (2,761,543)	\$53,353
-----						

NORTHSTAR ELECTRONICS, INC.  
Consolidated Statement of Cash Flows  
Three Months Ended March 31, 2003  
Unaudited  
U.S.Dollars

	2003	March 31 2002
	----	----
Operating Activities		
Net income (loss)	\$ (116,050)	\$ (267,779)
Adjustments to reconcile net income (loss) to net cash used by operating activities		
Amortization	5,405	1,840
Issuance of common stock for services	93,574	37,360
Changes in operating assets and liabilities	(212,059)	(22,022)
	-----	-----

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Net cash (used) provided by operating activities	(229,130)	(250,601)
	-----	-----
Investing Activities		
(Acquisition) disposal of property and equipment	2,885	355
Acquisition of transducer technology	-	(32,000)
	-----	-----
Net cash (used) provided by investing activities	2,885	(31,645)
	-----	-----
Financing Activities		
Issuance of common shares for cash	545,531	286,111
Increase (repayment) of long term debt	182,597	23,054
Due to Cabot Management Limited	2,445	1,076
Advances from (repayment to) director	(95,837)	13,334
	-----	-----
Net cash (used) provided by financing activities	634,736	323,575
	-----	-----
Effect of foreign exchange on translation	(30,237)	(11,034)
	-----	-----
Inflow of cash	378,254	30,295
Cash, beginning of period	117,690	39,699
	-----	-----
Cash, end of period	\$495,944	\$69,994
	-----	-----
Supplemental information		
Interest paid	\$8,351	\$9,570
Shares issued for services	\$93,574	\$37,360
Corporate income taxes paid	\$0	\$0

NORTHSTAR ELECTRONICS, INC.  
Notes to Consolidated Financial Statements  
Three Months Ended March 31, 2003  
Unaudited  
U.S. Dollars

### 1. ORGANIZATION AND BASIS OF PRESENTATION

These financial statements include the accounts of Northstar Electronics, Inc. ("the Company") and its wholly owned subsidiaries Northstar Technical Inc. ("NTI") and Northstar Network Ltd. ("NN"). All inter company balances and transactions are eliminated. The Company was incorporated May 11, 1998 in the State of Delaware and had no operations other than organizational activities prior to the January 1999 merger with NTI described as follows: On January 26, 1999 the Company completed the acquisition of 100% of the shares of NTI. The Company, with the former shareholders of NTI receiving a majority of the total shares then issued and outstanding, effected the merger through the issuance of 4,901,481 shares of common stock from treasury. The transaction has been accounted for as a reverse take over resulting in the consolidated financial statements including the results of operations of the acquired subsidiary prior to the merger.

The Company's business activities are conducted principally in Canada but these financial statements are prepared in accordance with accounting principles generally accepted in the United States with all figures translated into United States dollars for reporting purposes.

These unaudited consolidated interim financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States for interim financial information, are condensed and do not include all disclosures required for annual financial statements. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company's

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audited consolidated financial statements filed as part of the Company's December 31, 2002 Form 10-KSB.

In the opinion of the Company's management, this consolidated interim financial information reflects all adjustments necessary to present fairly the Company's consolidated financial position at March 31, 2003 and the consolidated results of operations and the consolidated cash flows for the three months then ended. At March 31, 2003, 73% of the Company's revenues were generated from one contract, which was substantially complete at March 31, 2003 - the Company is continually marketing its services for follow on contracts. At March 31, 2002, the Company recorded nil revenues from contract work. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results to be expected for the entire fiscal year.

### 2. COMMON STOCK

During the three months ended March 31, 2003, the following shares of common stock were issued:

For services	208,396
For cash	1,935,570
	-----
	2,143,966

The above common shares issued for services received represent fair value at the market value of those services.

### Item 2. Management's Discussion and Analysis or Plan of Operation.

The following discussion should be read in conjunction with the accompanying unaudited consolidated financial information for the three month periods ended March 31, 2003 and March 31, 2002 prepared by management and the audited consolidated financial statements for the twelve months ended December 31, 2002 as presented in the Form 10KSB.

Although the Company has experienced a net loss this quarter, it has expended considerable effort in developing new business in new markets for NETMIND and for new design and contract manufacturing work in an effort to materially benefit the future business of the Company. The Company's operations were close to break even for the quarter before the expenses incurred for engineering and business development.

### Special Note Regarding Forward Looking Statements

Certain statements in this report and elsewhere (such as in other filings by the Company with the Securities and Exchange Commission ("SEC"), press releases, presentations by the Company of its management and oral statements) may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and "should," and variations of these words and similar expressions, are intended to identify these forward-looking statements. Actual results may materially differ from any forward-looking statements. Factors that might cause or contribute to such differences include, among others, competitive pressures and constantly changing technology and market acceptance of the Company's products and services. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

### The Company's Services

The Company, through its subsidiaries, is a Multiple Applications underwater sonar technology developer, a defense electronics manufacturer and a defense systems integrator.

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### Underwater Sonar Products and Technologies

#### a - The NETMIND System

The Company's first underwater sonar product based on our core technology was the NETMIND system. NETMIND's market is the world's commercial fishing industry and government oceanic research agencies. One of our largest customers has been the United States National Oceanic and Atmospheric Administration (NOAA).

NETMIND is both a conservation tool as well as an efficiency tool. Electronic sensors attached to a fishing trawl measure the height and width of the net opening, the water temperature, the depth of the net and the amount of fish caught plus other parameters. The sensor information is transmitted via a wireless communications link back to the ship.

NETMIND helps prevent over fishing and allows fishermen to catch fewer fish and still make profits. This gives regulators flexibility in reducing quotas when attempting to conserve limited fish stocks.

Sales for NETMIND have been somewhat slower than expected during this three months period. Sales have not expanded in Europe as we had anticipated. However, an upswing in activity over the next six months is expected.

#### b - The AQUACOMM Project

The AQUACOMM project involves the development of new, leading edge multiple application sonar technologies and products for a variety of industries. These include defense, offshore oil and gas, commercial fishing, oceanography, marine environment and marine transportation. The Company's funding for AQUACOMM totaling US\$2,394,000 includes \$2,040,000 from the Canadian federal government comprising \$1,420,000 from the Atlantic Innovation Fund (announced July 9,2002), \$230,000 from the National Research Council (announced August 14,2002) and \$390,000 from Scientific Research tax credits (cash refunds made after each fiscal year end based on eligible research and development expenses). The balance is being funded through equity financing. The AQUACOMM development is scheduled to last three years. To date, the Company has received \$292,003 from this funding.

The Company intends to use its Venture Technology Business Model to maximize the success of the new AQUACOMM technologies. In this model, our core technology is invested in partnerships with established companies in the different industry sectors.

An example of our modus operandi is the development of a mooring line monitoring system for the offshore oil and gas industry. We expect to have such a system ready for commercial sale by the second quarter of 2003 and we intend to market it through a strategic alliance with an international oil field company.

Should our Venture Technology Business Model prove to be successful, we intend to provide up to ten new products arising from the AQUACOMM project to be sold by established companies in their sectors of influence.

#### c - Defense Sonar System

During this quarter the Company completed a contract to design and construct prototype sonar hardware for a defense protection system. It is designed for the protection of navy ships, ports and harbors. We expect that Homeland Security and Anti Terrorism will become a major part of our business over the next five years with production of these and other systems.

### Electronic Contract Manufacturing

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In the fall of 1999 we signed a contract with Lockheed Martin, Manassas, Virginia to fabricate and test control consoles for Navy submarines. This contract was successfully completed in early 2001. A follow-on contract was received and completed in the fall of 2001. Further console contracts are expected in the future. We are attempting to expand our electronic contract manufacturing business with our current customers, as well as with customers in the offshore oil and gas, transportation and communication industries.

### Systems Integration

The Company is developing its approach to securing and executing large defense contracts by bringing together affiliate companies. The overall capability, which is substantial, is presented to the prime contractors. To date, a memorandum of understanding has been signed with Lockheed Martin Canada to jointly pursue the \$2.0 billion Maritime Helicopter Project.

The aforementioned defense sonar system is an example of how Systems Integration will work for us. In this project, we had four subcontractors who carried out various tasks, with Northstar bringing all the component parts together for final assembly, testing, quality control and delivery to the customer.

### Subsequent Events

Subsequent to March 31, 2003 the Company issued 87,000 shares of common stock for cash of \$36,910.

### Results of Operations

Comparison of the three months ended March 31, 2003 with the three months ended March 31, 2002.

Revenue for the three month period ended March 31, 2003 was \$323,118 compared to \$197,252 of revenue recorded during the same period of the prior year. This comparative increase is the result of the completion of the contract for the intruder detection system in this quarter. Gross profits increased from \$86,464 (44%) in the prior period to \$174,205 (54%) in the current period. The increase was due to the fact that the costs to produce NETMIND systems have been reduced by increased efficiencies in production. The Company continues to negotiate for subsequent material contracts with Lockheed Martin and others.

The net loss for the three month period ended March 31, 2003 was \$(116,050) compared to a net loss of \$(267,779) for the three months ended March 31, 2002. Over this past quarter, the Company has invested considerable resources in seeking out additional and future contract manufacturing opportunities and is confident that the efforts will return positive results to the Company over the ensuing months and years.

During the quarter the Company continued to pursue the \$2.0 B Maritime Helicopter Project as one of Lockheed Martin Canada's team members. This contract should be awarded in 2004. The Company is also actively attempting to secure a first contract on the Joint Strike Fighter program in the United States, having already signed Memoranda of Interest with Lockheed Martin and four of its partner companies.

A highly significant event for the Company in this quarter was the completion of the underwater intruder detection system prototypes. The Company now expects to further expand its acoustic capabilities into military and anti terrorist applications as well as the offshore petroleum industry. We are actively pursuing contracts in these areas and we expect to see results later this year.



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During the quarter the Company increased expenditures on the marketing and advertising of its NETMIND system and expanded awareness of the NETMIND system through trade shows and a growing distribution network including Ireland and the Scandinavian countries. The new Bottom Contact Sensor was well received by our fishing industry customers and by government researchers.

The Company continued on its research and development program towards extending its underwater wireless communication technology into additional applications and expended further effort in developing proposals for financing of a major product development program.

Comparison of Financial Position at March 31, 2003 with December 31, 2002  
The Company improved its working capital position at March 31, 2003 to \$652,488 with current assets of \$1,019,998 which are in excess of current liabilities of \$367,510. At December 31, 2002 the Company had working capital of \$62,175.

### Liquidity and Capital Resources

The Company has decreased its shareholder's deficit as a result of its efforts to increase investor awareness and investment in the Company. During the quarter the Company issued 1,935,570 shares of common stock for cash of \$827,647 pursuant to a Regulation S offering.

The Company is also offering a private placement unit offering pursuant to Regulations D and S for up to 700,000 units at \$0.30 per unit (reduced from \$0.35 per unit). Each unit consists of one common share plus two warrants: one A warrant exercisable at \$0.35 (reduced from \$0.50) to acquire one common share and a B warrant exercisable at \$0.50 (reduced from \$0.75) to acquire one share. At March 31, 2003 the Company had 541,664 A warrants and 541,664 B warrants outstanding.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

No change since previous filing.

### Item 2. Changes in Securities.

Options Granted	Date	Exercise Price	Expiry Date
-----	----	-----	-----
None	-	-	-

Common Stock Issued	Date	Consideration
-----	----	-----
291,665	January 15, 2003	\$87,500
1,643,905	Jan/Feb/March, 2003	\$740,147
8,834	January, 2003	services valued at \$3,975
4,991	January, 2003	salary valued at \$2,200
5,906	February, 2003	services valued at \$5,906
188,665	Jan/Feb/March, 2003	services valued at \$84,899

### Item 3. Defaults Upon Senior Securities.

No change since previous filing.

### Item 4. Submission of Matters to a Vote of Security Holders.

No change since previous filing.

### Item 5. Other Information.

No change since previous filing.

### Item 6. Exhibits and Reports on form 8-K.

No change since previous filing.

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### SIGNATURES

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

May 12, 2003

Northstar Electronics, Inc.  
(Registrant)

By: /s/ Wilson Russell  
Wilson Russell, PhD  
President and Principal Financial Officer

### CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 W.S.C. SECTION 1350 AS ADOPTED

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002,  
the undersigned Chief Executive Officer and chief Financial Officer, or  
persons fulfilling similar functions, each certify:

(i) That the financial information included in this Quarterly Report fairly presents in all material respects the financial condition and results of operations of the Company as of March 31, 2003 and for the periods presented in the report; and

(ii) That the Quarterly Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities exchange Act of 1934

By: /s/ Wilson Russell

Title: Chief Executive Officer and  
Chief Financial Officer

Date: May 12, 2003