NORTHSTAR ELECTRONICS INC
Form 10QSB
August 16, 2005

**U.S. SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# Form 10-QSB

**[x] QUARTERLY REPORT** UNDER SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 For the quarterly period ended **June 30, 2005**

[ ] 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 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

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
**Yes [X]** No[ ]

Applicable only to 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 [X]**

Applicable only to corporate issuers:
State the number of shares outstanding of each of the issuer’s classes of common equity, as of the latest practicable date.
**Common shares as of August 5, 2005:** 16,377,266

Transitional Small Business Disclosure Format (check one):
Yes [] **No [X]**

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

| | June 30 | December 31 |
|---|---|---|
| | 2005 | 2004 |
| | **Unaudited** | |
| ASSETS | | |
| Current | | |
| Cash | $36,605 | $57,641 |
| Receivables | 75,115 | 251,635 |
| Inventory and work in progress | 147,561 | 156,086 |
| Prepaid expenses | 20,222 | 15,605 |
| Total Current Assets | 279,503 | 480,967 |
| Intangible assets | 37,285 | 37,285 |
| Property and Equipment | 73,346 | 106,144 |
| Total Assets | $390,134 | $624,396 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | $413,300 | $409,007 |
| Loans payable | 50,00 | 50,000 |
| Deferred revenue | 82,672 | 127,616 |
| Current portion of long term debt | 125,083 | 100,937 |
| Total Current Liabilities | 671,055 | 687,560 |
| Long Term Debt | 646,032 | 621,366 |
| Due to Cabot Management Limited | 87,404 | 88,866 |
| Due to Director | 107,564 | 1,036 |
| Total Liabilities | 1,512,055 | 1,398,828 |
| 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 16,377,266 shares of common stock (15,913,805 December 31, 2004) | 1,638 | 1,591 |
| Additional Paid in Capital | 3,656,540 | 3,531,360 |
| Other Comprehensive Income (loss) | (156,846) | (137,204) |
| Accumulated deficit | (4,623,253) | (4,170,179) |
| Total Stockholders' Equity (Deficit) | (1,121,921) | (774,432) |
| Total Liabilities and Stockholders' Equity | $390,134 | $624,396 |

The accompanying notes are an integral part of the financial statements

NORTHSTAR ELECTRONICS, INC.
Consolidated Statements of Operations
Three Months and Six Months Ended June 30, 2005
Unaudited
U.S. Dollars

| | Three Months | | Six Months | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Sales | $153,497 | $219,461 | $338,124 | $487,742 |
| Discounts | 58,161 | 30,137 | 67,698 | 60,737 |
| Sales net of discounts | $95,336 | $189,324 | $270,426 | $427,005 |
| Cost of goods sold | 26,211 | 66,627 | 90,103 | 202,256 |
| Gross margin | 69,125 | 122,697 | 180,323 | 224,749 |
| Recovery of research and development | 209,182 | 308,538 | 317,942 | 437,955 |
| Other income | 878 | 4,207 | 4,400 | 12,635 |
| | 279,185 | 435,442 | 502,665 | 675,339 |
| Expenses | | | | |
| Salaries | 283,456 | 306,631 | 489,653 | 558,677 |
| Financial consulting | 10,089 | 6,373 | 34,286 | 12,573 |
| Professional fees | 11,686 | 4,567 | 59,075 | 13,540 |
| Rent | 29,176 | 28,265 | 58,613 | 58,280 |
| Research and development | 39,376 | 22,498 | 91,079 | 38,777 |
| Investor relations | 56,548 | 26,630 | 65,204 | 62,381 |
| Office and administration | 21,380 | 30,655 | 37,306 | 49,865 |
| Travel and business development | 33,718 | 62,715 | 60,762 | 117,376 |
| Interest on debt | 10,200 | 3,840 | 17,090 | 7,146 |
| Telephone and utilities | 12,651 | 12,991 | 22,160 | 23,725 |
| Amortization | 7,617 | 8,350 | 15,270 | 16,940 |
| Repairs and maintenance | 1,763 | 2,151 | 4,665 | 5,255 |
| Transfer agent fees | 268 | 312 | 576 | 648 |
| Total expenses | 517,928 | 515,978 | 955,739 | 965,183 |
| Net loss for period | $(238,743) | $ (80,536) | $(453,074) | $(289,844) |
| Net loss per share | $ (0.01) | $ (0.01) | $ (0.03) | $ (0.02) |
| Weighted average number of shares outstanding | 16,045,520 | 15,922,951 | 16,069,594 | 15,838,074 |

The accompanying notes are an integral part of the financial statements

NORTHSTAR ELECTRONICS, INC.
Consolidated Statement of Changes in Stockholders' Equity (Deficit)
Six Months Ended June 30, 2005
Unaudited
U.S. Dollars

| | Shares | Amount | Additional Paid in Capital | Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholder Equity (Deficit) |
|---|---|---|---|---|---|---|
| Balance December 31, 2004 | 15,913,805 | $1,591 | $3,531,360 | $(137,204) | $(4,170,179) | $(774,432) |
| Net loss for six months | - | - | - | - | (453,074) | (453,074) |
| Other comprehensive credits (debits) | - | - | - | (19,642) | - | (19,642) |
| Issuance of Common stock For cash | 134,473 | 14 | 40,126 | - | - | 40,140 |
| Finders fee | | | | | | |
| in cash | - | - | (2,764) | - | - | (2,764) |
| in common shares | - | - | (3,935) | - | - | (3,935) |
| Balance June 30, 2005 | 16,377,266 | $1,638 | $3,656,540 | $(156,846) | $(4,623,253) | $(1,121,921) |

The accompanying notes are an integral part of the financial statements

NORTHSTAR ELECTRONICS, INC.
Consolidated Statement of Cash Flows
Six Months Ended June 30
Unaudited
U.S. Dollars

| | 2005 | 2004 |
|---|---|---|
| Operating Activities | | |
| Net income (loss) | $(453,074) | $(289,844) |
| Adjustments to reconcile net (loss) to net cash used by operating activities | | |
| Amortization | 15,270 | 16,940 |
| Issuance of common stock for services | 91,786 | 53,144 |
| Changes in operating assets and liabilities | 139,777 | (251,917) |
| Net cash provided by (used by) operating activities | (206,241) | (471,677) |
| Investing Activity | | |
| Recovery of property and equipment costs | 17,528 | 10,925 |
| Financing Activities | | |
| Issuance of common stock – net proceeds | 33,441 | - |
| Increase in long term debt | 48,812 | 71,177 |
| Due to Cabot Management Limited | (1,462) | (2,645) |
| Advances from (repayment to) director | 106,528 | 36,557 |
| Net cash (used) provided by financing activities | 187,319 | 105,089 |
| Effect of foreign currency translation on cash | (19,642) | 26,454 |
| Inflow (outflow) of cash | (21,036) | (329,209) |
| Cash, beginning of period | 57,641 | 613,040 |
| Cash, end of period | $ 36,605 | $283,831 |
| Supplemental information | | |
| Interest paid | $ 17,090 | $ 7,146 |
| Shares issued for services | $ 91,786 | $ 53,144 |

| | | |
|---|---|---|
| Corporate income taxes paid | $ 0 | $ 0 |

The accompanying notes are an integral part of the financial statements

NORTHSTAR ELECTRONICS, INC.
Notes to Consolidated Financial Statements
Six Months Ended June 30, 2005
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 audited consolidated financial statements filed as part of the Company's December 31, 2004 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 June 30, 2005 and the consolidated results of operations and the consolidated cash flows for the three and six months then ended. At June 30, 2005, 7% of the Company's revenues were generated from one contract (June 30, 2004, 24% of the Company's revenues were generated from one contract) – the Company is continually marketing its services for follow on contracts.

The results of operations for the three and six months ended June 30, 2005 are not necessarily indicative of the results to be expected for the entire fiscal year.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. During the six months to June 30, 2005, the Company incurred a net loss of $453,074 (year to December 31, 2004: $831,541) and at June 30, 2005 had a working capital deficiency (an excess of current liabilities over current assets) of $391,552 (December 31, 2004: $206,593), including $125,083 of long term debt due within one year (December 31, 2004: $100,937). Management has undertaken initiatives for the Company to continue as a going concern: for example, the Company is negotiating to secure an equity financing in the short term and is in discussions with several financing firms. The Company also expects to increase revenues in 2005 from sales of its NETMIND system and related products. As well, the Company has tendered proposals and price quotations on a submarine control console manufacturing contract, which is in the final stages of being awarded to the Company, and an aircraft carrier anti terrorism system manufacturing contract, which is anticipated to be awarded in 2005. These initiatives are in recognition that for the Company to continue as a going concern it must generate sufficient cash flow to cover its obligations and expenses. In addition, management believes these initiatives can provide the Company with a solid base for profitable operations, positive cash flows and reasonable growth. Subsequent to the end of the current quarter, the Company received funding in the amount of $400,000 USD from a government agency as part of a $540,000 USD international marketing program for its commercial sonar product. This government funding will be provisionally repayable based on a percentage of the sales of the sonar products that come from the new markets. Management is unable to predict the results of its initiatives at this time. Should management be unsuccessful in its initiative to finance its operations the Company's ability to continue as a going concern is uncertain. These financial statements do not give effect to any adjustments to the amounts and classifications of assets and liabilities which might be necessary should the Company be unable to continue its operations as a going concern.

2. COMMON STOCK

During the six months ended June 30, 2005, the following shares of common stock were issued for: Services: 328,988 shares fairly valued at $91,786 at the fair market value of the shares issued at the date of the invoice for the services rendered.
Cash: 134,473 shares for $40,140

In 2003 the Company issued 1,428,570 warrants exercisable at $0.50 per share. The warrants provide for a cashless exercise and expire in July, 2010. During 2005 the Company issued 134,473 A warrants exercisable at $0.50 per share and 134,473 B warrants exercisable at $0.75 per share.

3. LONG TERM DEBT

| | |
|---|---|
| Balance due Atlantic Canada Opportunities Agency ("ACOA") December 31, 2004 | $722,303 |
| Increase in ACOA funding during the first quarter | 75,921 |
| Repayment of ACOA funding during the second quarter | (27,109) |
| Balance due ACOA June 30, 2005 | 771,115 |
| Less current portion | 125,083 |
| | $646,032 |

4. REVENUE

Revenue for the six months ended June 30, 2005 consists of:

| | |
|---|---|
| NETMIND sales | $313,648 |
| Contract sales | 24,476 |
| | 338,124 |
| Recovery of R&D | 317,942 |
| Miscellaneous | 4,400 |
| | $660,466 |

5. CONTINGENCIES

(i) The Company is a defendant in a lawsuit commenced against them in 1999 by their former master distributor. The former distributor has alleged that the Company has interfered with the ability of the former distributor to sell products. The Company has filed a counter claim for monies owing by the former distributor to the Company.

(ii) The Company is contingently liable to repay US$1,287,198 in assistance received under the Atlantic Innovation Fund. The assistance is repayable annually commencing August 1, 2005 at the rate of 5% of gross revenues from sales of products resulting from the Aquacomm research and development project. Gross revenues are to be calculated for the fiscal year immediately preceding the due date of the respective payment. Repayment is to continue until the assistance is repaid in full. The Company has recorded $nil sales of Aquacomm related products to June 30, 2005.

6. STOCK-BASED COMPENSATION During the six months ended June 30, 2005 the Company granted options to employees as follows:

| Options Granted | Date | Exercise Price | Expiry Date |
|---|---|---|---|
| 87,500 | March 1, 2005 | $0.50 | March 1, 2015 |
| 50,000 | March 1, 2005 | $0.50 | March 1, 2010 |

The Company's policy is to account for such stock-based compensation using the intrinsic value method as prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. The intrinsic value of these stock options was $nil. Had the Company accounted for stock-based compensation using the fair-value method as prescribed by FASB Statement No. 123, Accounting for Stock-Based Compensation, the effect on the net loss for the six month period would have been as follows:

| | |
|---|---|
| Net loss as stated: | $453,074 |
| FAS 123 fair value of options granted in the quarter: | $ 29,879 |
| Net loss (proforma): | $482,953 |

The Company calculated the fair value of options granted using a volatility factor of 89.65%, interest rate of 3% and average option length of 7.5 years.

In 2004, FASB issued a revision of FASB Statement No. 123. This Statement supersedes APB Opinion No. 25 and its related implementation guidance. This revised pronouncement requires that all stock options and warrants be accounted for using the fair value method. This pronouncement will have the effect of future stock-based compensation resulting in a fair value charge to the Company commencing in fiscal 2006.

**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 and six month periods ended June 30, 2005 and 2004 prepared by management and the audited consolidated financial statements for the twelve months ended December 31, 2004 as presented in the Form 10KSB filed on EDGAR.

Although the Company has experienced a net loss this quarter, it continues to expend considerable effort in developing new markets for NETMIND, in developing new advanced sonar products, and in securing new contracts for the manufacture of military anti-terrorism systems, submarine command and control consoles, multi mode fiber optic cables for military fighter planes, and precision machined parts and other components for defense systems.

The Company believes that its overall business prospects look promising and anticipates increased revenues in the near to medium future.

The Company has tendered proposals and price quotations on a submarine control console manufacturing contract, which is in the final stages of being awarded to the Company, and an aircraft carrier anti terrorism system manufacturing contract, which is anticipated to be awarded in 2005.

**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 an underwater sonar technology developer, a defense electronics manufacturer and a defense systems integrator.

**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 decreased from the same period last year and remain somewhat slower than expected because of downturns in the fishing industry in areas where we had focused our sales efforts. Sales have not expanded in Europe primarily because our marketing campaign there was spread too thin. However, an upswing in activity over the next six months is expected primarily because, subsequent to the end of the current quarter, the Company received funding in the amount of $400,000 USD from a government agency as part of a two year $540,000 USD international marketing program for its NETMIND system. The Company believes that this aggressive, targeted campaign will revitalize NETMIND sales and expects to see increasing revenues going forward.

**b - The AQUACOMM Project**

The AQUACOMM project is a $2.5 Million in house research and development program for 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. To date, the Company has expended $2,491,000 pursuant to this program. New developments from the AQUACOMM project include a general purpose acoustic receiver, spread spectrum acoustic communications and improved sensors.

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.

**c – Defense Sonar System**

The Company is a subcontractor on Lockheed Martin's anti terrorism Swimmer Detection System (SDS). The SDS is a new technology that should provide anti terrorism protection to moored ships and harbor side assets. The SDS is a wide band high frequency sonar system designed specifically to detect and classify underwater terrorist threats. The SDS provides moored vessels and harbor side assets with 360 degree omni directional coverage and has been proven to reliably detect, classify and track underwater intruders at the longest possible ranges in the most demanding environments.

Lockheed Martin's SDS is currently under evaluation for protection of surface ships in the U.S. navy fleet. The SDS is being marketed in the United States and around the world.

The Company expects that Homeland Security and Anti Terrorism will become a major part of our business with the production of sonar hardware for the SDS and other systems.

**Electronic Contract Manufacturing**

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. Currently, we have submitted bids to Lockheed Martin for several console contracts. Subsequent to the end of the current quarter, a contract to manufacture a number of submarine command and control consoles is in the final stages of being awarded to the Company. The contract details are being held in confidence at the request of the customer. Further contracts are anticipated before the end of 2005 and in early 2006.

In the previous quarter the Company's subsidiary, Northstar Network Ltd., signed an agreement with Cathexis Innovations Inc. to manufacture Cathexis's proprietary Radio Frequency Identification (RFID) reader, ID Blue. This device is a pen-sized scanner that reads and writes information stored on RFID tags and wirelessly transfers it to a desktop computer, laptop, PDA or Pocket PC via Bluetooth.

During the quarter the Company submitted a bid to a large German defense contractor to supply components for an army weapons system. The contract award is expected before the end of 2005.

**Systems Development & 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.

The aforementioned defense sonar system is an example of how Systems Integration will work for us. In this project, the Company designed and constructed the prototype sonar hardware and 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.

**Results of Operations**

Comparison of the three and six months ended June 30, 2005 with the three and six months ended June 30, 2004:

Gross revenues from sales, miscellaneous and research and development recovery for the three month period ended June 30, 2005 were $363,557 compared to $532,206 in the comparative prior period. Gross revenues from sales, miscellaneous and research and development recovery for the six month period ended June 30, 2005 were $660,466 compared to $938,332 in the comparative prior period.

Sales revenue for the three month period ended June 30, 2005 was $153,497 compared to $219,461 of sales revenue recorded during the same period of the prior year. This comparative decrease is the result of decreased demand from the fishing industry, which impacted on the sales of the NETMIND systems. Sales revenue for the six month period ended June 30, 2005 was $338,124 comparable to $487,742 in the prior period. Gross margins decreased from $224,749 (46%) in the prior period to $180,323 (53%) in the current period.

The net loss for the three month period ended June 30, 2005 was $(238,743) compared to a net loss of $(80,536) for the three months ended June 30, 2004. Over this past quarter, the Company continued to invest 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.

Travel and business development costs were reduced to $60,762 for the six months from $117,376 for the comparative prior period ended June 30, 2004 due to the limitations of working capital.

The Company is actively pursuing contracts for its sonar capabilities in military and anti terrorist applications as well the Company has bid on several contract manufacturing military contracts and has received a contract from Lockheed Martin for the production of submarine command and control consoles subsequent to this quarter.

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, Spain and the Scandinavian countries. The system upgrades are being well received by our fishing industry customers and by government researchers. Subsequent to the end of the quarter the Company received approval for funding of $400,000 USD as part of a $540,000 USD international marketing campaign for its commercial sonar product.

The Company continued on its research and development program at a reduced pace towards extending its underwater wireless communication technology into new products. Due to limited working capital salaries were reduced to $489,653 for the six months ended June 30, 2005 compared to salaries of $558,677 for the comparative prior six months ended June 30, 2004. The slower pace of activity resulted in a decrease of cost recovery to $317,942 compared with $437,955 recovered in the comparative prior period.

**Comparison of Financial Position at June 30, 2005 with December 31, 2004**

The Company’s working capital deficiency at June 30, 2005 increased to $391,552 with current liabilities of $671,055 in excess of current assets of $279,503. At December 31, 2004 the Company had a working capital deficiency of $206,593.

**Critical Accounting Policies and Estimates**

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Our significant accounting policies are described in the footnotes to our financial statements at December 31, 2004. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Although these estimates are based on our knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results. Certain accounting policies involve significant judgments and assumptions by us which have a material impact on our financial condition and results. Management believes its critical accounting policies reflect its most significant estimates and assumptions used in the presentation of our financial statements. Our critical accounting policies include revenue recognition, accounting for stock based compensation and the evaluation of the recoverability of long lived and intangible assets. We do not have off-balance sheet arrangements, financings or other relationships with unconsolidated entities or other persons, also known as “special purpose entities”.

During the period the company granted options to employees as described in Part II, Item 2. The company's policy is to account for such stock-based compensation using the intrinsic value method as prescribed by APB 25. The intrinsic value of these stock options was $nil. Had the company accounted for stock-based compensation using the fair-value method as prescribed by FAS 123, the effect on the net loss for the six month period would have been as follows:

| | |
|---|---|
| Net loss as stated: | $453,074 |
| FAS 123 fair value of options granted in the quarter: | $ 29,879 |
| Net loss (proforma): | $482,953 |

In 2004, FASB issued a revision of FASB Statement No. 123. This Statement supersedes APB Opinion No. 25 and its related implementation guidance. This revised pronouncement requires that all stock options and warrants be accounted for using the fair value method. This pronouncement will have the effect of future stock-based compensation resulting in a fair value charge to the Company commencing in fiscal 2006.

**Liquidity and Capital Resources**
The Company has increased its shareholder's deficit as a result of its efforts to increase its business activity and customer base. Cash outflows used in the six months ended June 30, 2005 was $(21,036) compared to an outflow of cash of $(329,209) for the six months ended June 30, 2004. In the prior comparative period the Company received $nil ($37,376 in the current period) from equity funding and received $71,177 in the prior comparative period from the net proceeds of long term debt (received an additional $48,812 in the current six month period). As a result, operations have used cash during the period, leaving cash on hand at June 30, 2005 of $36,605 compared to cash on hand of $57,641 at December 31, 2004 and $283,831 at June 30, 2004. Until the Company receives its next contract and/or increases its product sales revenue, it will be dependent upon equity and loan financings to compensate for the outflow of cash anticipated from operations.

The Company is preparing a private placement offering pursuant to Regulations D and S with the expectation of raising up to $1,850,000. Any funds so raised are targeted for product development, marketing and general working capital. At this time, no commitment for funding has been made to the Company.

The Company's financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. During the period to June 30, 2005, the Company incurred a net loss of $453,074 (year to December 31, 2004: $831,541) and at June 30, 2005 had a working capital deficiency (an excess of current liabilities over current assets) of $391,552 (December 31, 2004: working capital deficiency of $206,593), including $125,083 (December 31, 2004: $100,937) of long term debt due within one year. Management has undertaken initiatives for the Company to continue as a going concern: for example, the Company is negotiating to secure an equity financing in the short term and is in discussions with several financing firms. The Company also expects to increase revenues in 2005 from sales of its NETMIND system and related products. As well, the Company is in the final stages of being awarded a contract to manufacture submarine control consoles, which it expects to commence during the next quarter, and has bid for an aircraft carrier anti terrorism system manufacturing contract, which is anticipated to be awarded in 2005. These initiatives are in recognition that for the Company to continue as a going concern it must generate sufficient cash flow to cover its obligations and expenses. In addition, management believes these initiatives can provide the Company with a solid base for profitable operations, positive cash flows and reasonable growth. Management is unable to predict the results of its initiatives at this time. Should management be unsuccessful in its initiative to finance its operations the Company's ability to continue as a going concern is uncertain. These financial statements do not give effect to any adjustments to the amounts and classifications of assets and liabilities which might be necessary should the Company be unable to continue its operations as a going concern.

**Item 3. Controls and Procedures**
(a) Evaluation of disclosure controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) as of the date of this Quarterly Report on Form 10-QSB, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are designed to ensure that the information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and are operating in an effective manner.

(b) Changes in internal controls. There were no changes in our internal controls or in other factors that could affect these controls subsequent to the date of their most recent evaluation.

**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 |
|---|---|---|---|
| 87,500 | March 1, 2005 | $0.50 | March 1, 2015 |
| 50,000 | March 1, 2005 | $0.50 | March 1, 2010 |

Warrants Issued

During the six month period the Company has issued 134,473 A warrants exercisable at $0.50 per share and 134,473 B warrants exercisable at $0.75 per share.

| Common Stock Issued | Date | Consideration |
|---|---|---|
| 23,273 | January, 2005 | services valued at $8,614 |
| 64,968 | January, 2005 | cash of $22,763 |
| 16,497 | February, 2005 | services valued at $5,774 |
| 40,541 | March, 2005 | services valued at $15,000 |
| 10,715 | May, 2005 | services valued at $3,750 |
| 237,962 | June, 2005 | services valued at $58,649 |
| 69,505 | June, 2005 | cash of $17,376 |

**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.

**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.

August 10, 2005

**Northstar Electronics, Inc.**
(Registrant)
By: /s/ Wilson Russell Wilson Russell, PhD, President and Principal Financial Officer

Exhibit 32.1

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

Solely for the purposes of complying with, and the extent required by 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies, in his capacity as the Chief Executive Officer and Chief Financial Officer of **Northstar Electronics, Inc.**, that, to his knowledge, the quarterly report of the company on Form 10-QSB for the period ended June 30, 2005, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the report fairly presents, in all material respects, the company’s financial condition and results of operations.

August 10, 2005

/s/ Wilson Russell Wilson Russell, Chief Executive Officer and Chief Financial Officer

302 CERTIFICATION

Exhibit 31.1

**CERTIFICATION** PURSUANT TO 18 U.S.C. ss.1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Wilson Russell, Chief Executive Officer of **Northstar Electronics, Inc.**, certify that:

1. I have reviewed this quarterly report on Form 10-QSB for the period ended June 30, 2005 of **Northstar Electronics, Inc.**;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

August 10, 2005

/s/ Wilson Russell Wilson Russell, Chief Executive Officer and Chief Financial Officer