

NORTHSTAR ELECTRONICS INC  
Form 10QSB  
November 15, 2006

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

**Washington, D.C. 20549**

**Form 10-QSB**

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

ACT OF 1934 For the quarterly period ended **September 30, 2006**

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 #

**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

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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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  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

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 November 10, 2006:** 20,286,614

Transitional Small Business Disclosure Format (check one):

Yes  No

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Nine Months Ended September 30, 2006, U.S. Dollars

### **Prepared by management**

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements - NORTHSTAR ELECTRONICS, INC.**

Consolidated Balance Sheets

U.S. Dollars

	September 30	December 31
	2006	2005
ASSETS	<b>Unaudited</b>	
Current		
Cash	\$21,796	\$46,905
Receivables	167,206	819,419
Inventory and work in progress	387,126	440,707
Prepaid expenses	<u>14,089</u>	<u>24,864</u>
Total Current Assets	590,217	1,331,895
Intangible assets	28,047	37,285
Property and Equipment	<u>70,983</u>	<u>78,193</u>

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Total Assets	<b><u>\$689,247</u></b>	<b><u>\$1,447,373</u></b>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$847,618	\$1,372,745
Loans payable	137,993	50,000
Deferred revenue	174,520	461,544
Current portion of long term debt	<u>172,938</u>	<u>148,988</u>
Total Current Liabilities	1,333,069	2,033,277
Long Term Debt	820,610	706,962
Due to Cabot Management Limited	93,792	89,873
Due to Director	<u>138,205</u>	<u>120,055</u>
Total Liabilities	<u>2,385,676</u>	<u>2,950,167</u>
STOCKHOLDERS' DEFICIT		
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		
20,286,614 shares of common stock	2,029	1,706
(17,060,715 December 31, 2005)		
Additional Paid in Capital	4,167,426	3,829,439

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Other Comprehensive loss	(209,673)	(178,992)
Accumulated deficit	(5,656,211)	(5,154,947)
Total Stockholders' Deficit	(1,696,429)	(1,502,794)
Total Liabilities and Stockholders' Deficit	<b>\$689,247</b>	<b>\$1,447,373</b>

The accompanying notes are an integral part of the financial statements

**NORTHSTAR ELECTRONICS, INC.**

Consolidated Statements of Operations

Three Months and Nine Months Ended September 30

Unaudited

U.S. Dollars

	Three Months		Nine Months	
	2006	2005	2006	2005
Sales	<b>\$356,385</b>	\$108,922	<b>\$1,042,252</b>	\$447,046
Discounts	29,215	17,565	89,446	85,263
Sales net of discounts	<b>327,170</b>	91,357	<b>952,806</b>	361,783
Cost of goods sold	145,025	33,258	470,719	123,361
Gross margin	<b>182,145</b>	58,099	<b>482,087</b>	238,422
Other income	9,604	1,678	9,604	6,078
Recovery of research and development	47,143	111,043	347,534	428,985
	<b>238,892</b>	170,820	<b>839,225</b>	673,485
Operating Expenses				

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Salaries	240,096	297,881	753,424	787,534
Consulting	1,500	21,350	52,560	55,636
Professional fees	14,722	22,441	84,458	81,516
Investor relations	22,787	79,350	34,412	144,554
Rent	26,414	33,335	91,228	91,948
Research and development	18,998	23,153	63,550	114,232
Office	21,462	26,655	71,946	68,626
Travel and business development	17,412	32,950	99,460	93,712
Interest on debt	20,993	9,043	31,672	26,133
Heat, light and telephone	8,604	11,691	35,299	33,851
Amortization	6,769	7,888	21,048	23,158
Transfer agent	649	119	1,432	695
Total operating expenses	<b>400,406</b>	565,856	<b>1,340,489</b>	1,521,595
Net loss for the period	<b>\$ (161,514)</b>	\$(395,036)	<b>\$ (501,264)</b>	\$(848,110)
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustment	5,601	(60,832)	(30,681)	(80,474)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	(155,913)	(455,868)	(531,945)	(928,584)
Net loss per share	<b>\$ (0.01)</b>	\$(0.02)	<b>\$ (0.03)</b>	\$(0.05)
Weighted average number of shares outstanding	<b>19,340,780</b>	16,559,129	<b>17,994,515</b>	16,225,932

The accompanying notes are an integral part of the financial statements

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**NORTHSTAR ELECTRONICS, INC.**

Consolidated Statement of Changes in Stockholders' Equity (Deficit)

Nine Months Ended September 30, 2006

Unaudited

U.S. Dollars

				Other		
			Additional	Compre-	Accumu-	Total
			Paid in	hensive	lated	Stockholder
	Shares	Amount	Capital	Income (Loss)	Deficit	Deficit
Balance December 31, 2005	17,060,715	\$1,706	\$3,829,439	\$ (178,992)	\$ (5,154,947)	\$ (1,502,794)
Net loss for nine months	-	-	-	-	(501,264)	(501,264)
Currency translation adjustment	-	-	-	(30,681)	-	(30,681)
Issuance of common stock:						
- for services	485,899	49	85,992	-	-	86,041
- for cash	2,740,000	274	280,026	-	-	280,300
Share issuance costs	-	-	(28,031)	-	-	(28,031)



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Balance	20,286,614	\$2,029	\$4,167,426	\$ (209,673)	\$ (5,656,211)	\$ (1,696,429)
September 30, 2006						

The accompanying notes are an integral part of the financial statements

**NORTHSTAR ELECTRONICS, INC.**

Consolidated Statement of Cash Flows

Nine Months Ended September 30, 2006

Unaudited

U.S. Dollars

	September 30	
	2006	2005
Operating Activities		
Net (loss)	\$ (501,264)	\$ (848,110)
Adjustments to reconcile net (loss) to net cash used by operating activities		
Amortization	21,048	23,158
Issuance of common stock for services	86,041	182,886
Changes in operating assets and liabilities	(25,587)	320,285
Net cash (used by) operating activities	<b>(419,762)</b>	(321,781)
Investing Activity		
Recovery (acquisition) of property and equipment	-	13,323
Financing Activities		
Issuance of common stock for cash - net	252,269	40,186
Increase of long term debt	100,275	290,925

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Due to Cabot Management Limited	-	39
Advances from (repayment to) director	14,265	(1,098)
Net cash provided by financing activities	<b>366,809</b>	330,052
Effect of foreign currency translation on cash	27,844	(71,396)
Inflow (outflow) of cash	<b>(25,109)</b>	<b>(49,802)</b>
Cash, beginning of period	46,905	57,641
Cash, end of period	<b>\$21,796</b>	\$7,839
<b>Supplemental information</b>		
Interest paid	\$31,672	\$26,133
Shares issued for services	\$86,041	\$186,766
Corporate income taxes paid	\$0	\$0

The accompanying notes are an integral part of the financial statements

**NORTHSTAR ELECTRONICS, INC.**

Notes to Consolidated Financial Information

Nine Months Ended September 30, 2006

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 merger with NTI described as follows: On January 26, 2000 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

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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, 2005 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 September 30, 2006 and the consolidated results of operations and the consolidated cash flows for the three and nine months then ended. For the nine months ended September 30, 2006, 42% of the Company's sales revenues were generated from one contract (at September 30, 2005, 49% 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 nine months ended September 30, 2006 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 nine months to September 30, 2006 the Company incurred a net loss of \$501,264 (year to December 31, 2005: \$984,768) and at September 30, 2006 had a working capital deficiency (an excess of current liabilities over current assets) of \$742,852 (December 31, 2005: \$701,382), including \$172,938 of long term debt due within one year (December 31, 2005: \$148,988). 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 from sales of its NETMIND system and related products. As well, the Company has been awarded a submarine control console manufacturing contract and has submitted a proposal to participate in the manufacture of an aircraft carrier or port anti terrorism system, a contract for which is now anticipated to be awarded in 2007. 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. The Company is benefiting from funding in the amount of \$400,000 USD from a government agency as part of a \$540,000 USD international marketing program for its NETMIND system. The ACOA funding is provisionally repayable based on a percentage of product sales that come from any new markets. No product sales derived from this program have been recorded at September 30, 2006. 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. LONG TERM DEBT

Balance due Atlantic Canada Opportunities Agency ("ACOA")

December 31, 2005	\$855,950
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Increase in ACOA funding during the period	<u>137,598</u>
Balance due ACOA September 30, 2006	993,548
Less current portion	<u>172,938</u>
	<u>\$820,610</u>

3. COMMON STOCK

During the nine months ended September 30, 2006, the following shares of common stock were issued:

For services:

485,899 shares fairly valued at \$86,041 at the market value of those services

For cash:

40,000 shares for \$10,300

2,700,000 shares for \$270,000

STOCK OPTIONS

As at September 30, 2006, the outstanding stock options granted to directors, employees and others totaled 2,769,000 shares with a weighted average exercise price of \$0.52 per share and expiry dates ranging from June 25, 2007 to March 1, 2015. No additional options have been granted during the nine months ended September 30, 2006. All of the outstanding options are fully exercisable.

WARRANTS

During the nine months ended September 30, 2006 the Company issued 2,700,000 half warrants where one warrant plus \$0.15 entitles the holder to acquire one additional common share of the Company. As at September 30, 2006, the outstanding warrants totaled 2,778,570 with a weighted average exercise price of \$0.33 with various expiry dates up to August 2011.

4. REVENUE

		Nine months 2006	Nine months 2005
Revenue consists of:	NETMIND sales	\$451,436	\$404,902
	Contract sales	590,816	42,144
	Government assistance	347,534	428,985
	Miscellaneous	<u>9,604</u>	<u>6,078</u>

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		<u>\$1,399,390</u>	<u>\$882,109</u>
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### 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 provisionally liable to repay \$1,873,392 in assistance received under the Atlantic Innovation Fund. The assistance is repayable annually commencing August 1, 2006 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. Nil amounts are owing at September 30, 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 nine month periods ended September 30, 2006 and 2005 prepared by management and the audited consolidated financial statements for the twelve months ended December 31, 2005 as presented in the Company's 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.

The Company has tendered proposals and price quotations on an additional submarine control console manufacturing contract, a naval ships and ports anti terrorism system manufacturing contract, and a contract to manufacture parts for the P-3 surveillance airplane wings.

### **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

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circumstances after the date hereof or to reflect the occurrence of unanticipated events.

### **The Company's Services**

#### 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.

NETMIND sales increased from the same period last year and showed improvement towards the end of 2005. This was primarily due to an increased marketing effort in Spain and the northeastern United States as well as to the introduction of the net symmetry system.

#### b - The AQUACOMM Project

The AQUACOMM project is an 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 \$2,981,895 pursuant to this program and has recovered \$1,873,392. Among the new developments from the AQUACOMM project are a general purpose acoustic receiver, spread spectrum acoustic communications and improved sensors.

The net symmetry system is the first commercial sonar product from the Aquacommm project. It was introduced to the fishing market during the first quarter of 2006 with initial sales coming from Spain. In addition, results of the AQUACOMM work has positioned the Company to extend its NETMIND role on board vessels beyond its current sub sea monitoring function and allows the addition of features and capabilities to the system that would extend the NETMIND use to a vessel management role. This would include applying AQUACOMM sensing and systems design to network with and access data from other on board subsystems for analysis and display, taking advantage of the existing NETMIND bridge mounted system and adding new functionality.

#### 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. Additionally, Lockheed Martin is marketing these units around the world for protection of naval fleets and harbors. Northstar has assisted in the design and manufactures the sonar hardware for SDS units for naval trials with two of these units having been purchased. The final trials took place in August 2006.

The Company continued work during the quarter to assist Lockheed Martin in developing enhancements to the SDS technology.

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### Defense Contract Manufacturing

During the third quarter of 2005 the Company was awarded a \$1.2M command and control console contract by Lockheed Martin Naval Electronics and Surveillance Systems, Manassas, Virginia to perform a technology update and test command and control consoles for the Canadian Navy's Victoria Class submarine's command display. This contract is covered under a Manufacturing License Agreement between Lockheed Martin and our company. Work under this contract continued through the third quarter of 2006 and we expect to complete it during the fourth quarter of 2006. We also expect an additional submarine console manufacturing contract.

The Company has either bid on or is in the process of bidding on the following contracts:

- 1 - Joint Strike Fighter - manufacture of fiber optic cables
- 2 - P-3 Re-wing program - manufacture of airplane wing components
- 3 - USN Program - Intruder Detection System - manufacturing sonar hardware
- 4 - Special Program - engineering and manufacturing hardware
- 5 - Military Helicopter Simulator - engineering and manufacturing components
- 6 - Anti bio terrorism System - outsource manufacturing of LM's biochemical detection system
- 7 - Submarine Command/Control Consoles - manufacture of consoles

These contracts are expected to be awarded in late 2006 and during 2007.

### 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.

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.

### Results of Operations

Comparison of the three and nine months ended September 30, 2006 with the three and nine months ended September 30, 2005:

Gross revenues from sales, miscellaneous and research and development recovery for the three months ended September 30, 2006 were \$413,132 compared to \$221,643 in the comparative prior three month period. Gross revenues from sales, miscellaneous income and research and development recovery for the nine months ended September 30, 2006 were \$1,399,390 compared to \$882,109 in the comparative prior nine month period.

Gross sales revenue for the three months ended September 30, 2006 was \$356,385 compared to \$108,922 of sales revenue recorded during the same period of the prior year. This comparative increase is the result of the console contract currently in place. Sales revenue for the nine

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months ended September 30, 2006 was \$1,042,252, compared to \$447,046 in the comparative prior period. The increase is attributable to the console contract commenced in late 2005 and continuing through 2006. Gross margins increased from \$238,422 (53%) in the prior nine month period to \$482,087 (46%) in the current period due to the increase in contract sales which generate a lower margin.

The net loss for the three months ended September 30, 2006 was \$(161,514) comparable to a net loss of \$(395,036) for the three months ended September 30, 2005. During the quarter the Company continued work on phase 2 of a \$1,200,000 contract from Lockheed Martin and 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.

Travel and business development costs remained constant at \$99,460 for the nine months ended September 30, 2006 compared to \$93,712 for the comparative prior period ended September 30, 2005 in an effort to expand both contract and NETMIND sales.

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, as previously mentioned, is working on a current contract from Lockheed Martin for the production of submarine command and control consoles.

During the quarter the Company decreased expenditures on salaries and overheads while expanding market awareness of the NETMIND system through trade shows and a growing distribution network including Ireland and Spain. The system upgrades are being well received by our fishing industry customers and by government researchers. During the previous year the Company received approval for funding of \$400,000 USD as part of a \$540,000 USD international marketing campaign for the NETMIND system.

The Company continued on its research and development program at a reduced pace towards extending its underwater wireless communication technology into new products. Salaries were \$753,424 for the nine months ended September 30, 2006 compared to salaries of \$787,534 for the comparative prior nine months ended September 30, 2005.

### **Comparison of Financial Position at September 30, 2006 with December 31, 2005**

The Company's working capital deficiency at September 30, 2006 increased to \$742,852 with current liabilities of \$1,333,069 in excess of current assets of \$590,217. At December 31, 2005 the Company had a working capital deficiency of \$701,382.

### **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, 2005. 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



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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".

### 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 outflow in the first quarter ended March 31, 2006 was \$(13,934) compared to an outflow of cash of \$(35,143) for the six months ended June 30, 2006 and an outflow of cash of \$(25,109) for the nine months ended September 30, 2006. Cash outflow of \$(25,109) for the nine months ended September 30, 2006 compared with cash outflow of \$(49,802) in the prior comparative nine months). Over the prior comparative nine months the Company received \$40,186 (the Company received \$280,300 over the current nine months) from equity funding and received \$290,925 in the prior comparative nine months from the proceeds of long term debt and received long term debt of \$137,598, net of repayments, over the current nine months. As a result, operations have used cash during the quarter, leaving cash on hand at September 30, 2006 of \$21,796 compared to cash on hand of \$46,905 at December 31, 2005 and \$7,839 at September 30, 2005. The Company is currently working on the Lockheed Martin submarine console contract from which it expects to receive income in the fourth quarter of 2006. Until the Company receives this income and/or increases its product sales revenue, it will be dependent upon equity and/or loan financings to compensate for the anticipated outflow of cash from operations. The \$400,000 support for the NETMIND marketing program is offsetting some of the expenses associated with the program through 2006.

The Company is preparing a private placement offering pursuant to Regulations D and S in an effort to raise up to \$250,000 in the short term and an additional \$2,000,000 subsequently. 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 nine months to September 30, 2006 the Company incurred a net loss of \$501,264 (nine months to September 30, 2005: \$848,110) and at September 30, 2006 had a working capital deficiency (an excess of current liabilities over current assets) of \$742,852 (December 31, 2005: working capital deficiency of \$701,382), including \$172,938 (December 31, 2005: \$148,988) 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 from sales of its NETMIND system and related products. As well, the Company has been awarded a contract by Lockheed Martin to manufacture submarine control consoles, which it commenced during the current quarter, and has bid for an aircraft carrier anti terrorism system manufacturing contract, which is now anticipated to be awarded in 2006. 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

1. Evaluation of disclosure controls and procedures

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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) for the end of the period covered by this report, being September 30, 2006, on Form 10-QSB, our chief executive officer and chief financial officer has 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

Nil

Warrants Issued

2,700,000 half warrants exercisable at \$0.15 per whole warrant to acquire one common share.

Common Stock Issued	Date	Consideration
85,000	January, 2006	services valued at \$14,450
49,271	January, 2006	services valued at \$9,450
60,000	February, 2006	services valued at \$15,000
105,388	April, 2006	services valued at \$18,750
44,945	May, 2006	services valued at \$7,641
40,000	May, 2006	cash \$10,300
23,438	July, 2006	services valued at \$3,750
100,000	July, 2006	services valued at \$15,000
2,000,000	July, 2006	cash \$200,000
100,000	August, 2006	cash \$10,000
17,857	August, 2006	services valued at \$2,000
600,000	August, 2006	cash \$60,000

#### **Item 3. Defaults Upon Senior Securities.**

No change since previous filing.

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

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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.

November 14, 2006 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 September 30, 2006 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.

November 14,  
2006

/s/ Wilson Russell

Wilson Russell, Chief Executive Officer and Chief Financial Officer

**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 September 30, 2006 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;

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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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my 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 my 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.

November 14,  
2006

/s/ Wilson Russell

Wilson Russell, Chief Executive Officer and Chief Financial  
Officer