

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10-Q

NORTHSTAR ELECTRONICS INC
Form 10-Q
November 19, 2010

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934 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 # 410 - 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 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 OCTOBER 30, 2010:
35,926,860

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10-Q

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS UNAUDITED - PREPARED BY MANAGEMENT

NORTHSTAR ELECTRONICS, INC. Consolidated Financial Statements Consolidated Balance Sheets at September 30, 2010 and at December 31, 2009 Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2010 and 2009 Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2010 Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009 Notes to Consolidated Financial Statements

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

ITEM 3. CONTROLS AND PROCEDURES

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS

SIGNATURES

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

	SEPTEMBER 30 2010 UNAUDITED	December 31 2009 audited
ASSETS	-----	-----
CURRENT		
Cash and cash equivalents	\$ 31,994	\$ 108,486
Accounts receivable	86,504	208,973
Inventory	121,358	132,367
Prepaid expenses	133,892	44,156
	-----	-----
	373,748	493,982
DEFERRED CONTRACT COSTS	62,139	193,464
INTANGIBLE ASSET	12,755	14,333
EQUIPMENT	47,987	57,835
	-----	-----
	\$ 496,629	\$ 759,614
	=====	=====
LIABILITIES		

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10-Q

CURRENT			
Accounts payable and accrued liabilities	\$	1,816,850	\$ 1,623,875
Loans payable		250,222	193,161
Due to Cabot Management Limited		52,966	52,078
Due to Directors		1,171,194	1,205,743
Deferred revenue		71,213	273,518
Current portion of long-term debt		1,186,290	1,339,568
		-----	-----
		4,548,735	4,687,943
LONG-TERM DEBT		627,421	708,490
		-----	-----
		5,176,156	5,396,433
		=====	=====
STOCKHOLDERS' DEFICIT			
Authorized:			
100,000,000 Common shares with a par value			
of \$0.0001 each 20,000,000 Preferred shares			
with a par value of \$0.0001 each			
Issued and outstanding:			
35,926,860 Common shares (31,939,070 -			
December 31, 2009)		3,592	3,194
488,586 Preferred series A shares			
(348,000 - December 31, 2009)		409,299	285,600
ADDITIONAL PAID-IN CAPITAL		5,738,103	5,174,173
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		(517,921)	(457,939)
ACCUMULATED DEFICIT		(10,312,600)	(9,641,847)
		-----	-----
		(4,679,527)	(4,636,819)
		-----	-----
	\$	496,629	\$ 759,614
		=====	=====

See notes to the consolidated financial statements

NORTHSTAR ELECTRONICS, INC.
Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2010 and 2009
Unaudited
U.S.Dollars

	Three Months		Nine Months	
	2010	2009	2010	2009
Sales	\$528,520	\$875,049	\$2,767,591	\$2,257,445
Cost of goods sold	384,178	690,449	2,060,260	1,686,193
Gross margin	144,342	184,600	707,331	571,252
Recovery of development costs	0	0	0	0
Other income (expense)	0	4,972	0	4,972
	144,342	189,572	707,331	576,224
EXPENSES				
Salaries	211,611	189,322	643,797	566,821
Management and administration fees	45,000	58,107	135,000	151,197
Financial consulting	3,000	0	9,000	0
Professional fees	53,414	13,407	64,240	62,479
Rent	30,411	36,338	93,382	99,806

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10-Q

Investor relations	1,238	3,000	24,790	15,500
Office and administration	39,213	21,123	110,070	78,551
Bad debts	0	42,434	0	42,434
Travel and business development	2,897	(10,324)	36,999	4,193
Interest on debt	113,580	117,697	214,572	285,979
Telephone and utilities	7,353	14,770	22,189	31,045
Amortization	3,484	(21,147)	13,079	10,787
Finance fees	0	12,854	10,967	29,284
Total expenses	511,201	477,581	1,378,085	1,378,076
Net loss for period	\$(366,859)	\$(288,009)	\$(670,754)	\$(801,852)
Net loss per share	\$(0.01)	\$(0.01)	\$(0.02)	\$(0.03)
Weighted average number of shares outstanding	35,574,202	30,462,501	34,481,172	30,432,096

See notes to the consolidated financial statements

NORTHSTAR ELECTRONICS, INC.
Consolidated Statement of Changes in Stockholders' Equity
Nine Months Ended September 30, 2010
Unaudited
U.S. Dollars

	Shares	Amount	Additional Paid in Capital	Other Compre- hensive Income	Accumu- lated Deficit	Total Stockholder Equity (Deficit)
Balance December 31, 2009	31,939,070	\$3,194	\$5,174,173	\$(457,939)	\$(9,641,846)	\$(4,922,418)
Net loss for nine months	-	-	-	-	(670,754)	(670,754)
Currency translation adjustment	-	-	-	(59,982)	-	(59,982)
Issuance of common stock:						
- for conversion	160,000	16	32,812	-	-	32,828
- for loan payable	30,000	3	6,597	-	-	6,600
- for prepaid expense	508,844	51	96,949	-	-	97,000
- for cash	2,941,172	294	366,765	-	-	367,059
- for services	347,774	34	60,807	-	-	60,841
Balance September 30, 2010	35,926,860	\$3,592	\$5,738,103	\$(517,921)	\$(10,312,600)	\$(5,088,826)

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10-Q

Series A shares of preferred stock -balance December 31, 2009	285,600
Series A shares of preferred stock - converted	(32,828)
Series A shares of preferred stock - issued during the period	156,527

Total stockholders' equity (deficit) September 30, 2010	\$ (4,679,527)
=====	

See notes to the consolidated financial statements

NORTHSTAR ELECTRONICS, INC.
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2010 and 2009
Unaudited
U.S.Dollars

	2010	2009
Operating Activities		
Net income (loss)	\$ (670,754)	\$ (801,852)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Amortization	13,079	10,787
Write down of deferred start up costs	133,683	0
Issuance of common stock for services	60,841	14,432
Changes in operating assets and liabilities	186,462	158,335
Net cash (used) provided by operating activities	(276,689)	(618,298)
Investing Activities		
Property and equipment disposal (purchase)	(510)	(9,828)
Net cash (used) provided by investing activities	(510)	(9,828)
Financing Activities		
Issuance of common shares for cash (net of costs)	523,586	228,806
Increase (repayment) of long term debt	(267,400)	90,409
Advances from (repayment to) directors	(50,534)	130,235
Net cash (used) provided by financing activities	205,652	449,450
Effect of foreign exchange on translation	(4,945)	17,471
Inflow (outflow) of cash	(76,492)	(161,205)
Cash, beginning of period	108,486	210,348
Cash, end of period	\$ 31,994	\$ 49,143
Supplemental information		
Interest paid	\$214,572	\$285,979
Shares issued for prepaid expense	\$97,000	\$0
Shares issued for loan repayment	\$6,600	\$0
Shares issued for services	\$60,841	\$14,432
Corporate income taxes paid	\$0	\$0

See notes to the consolidated financial statements

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10-Q

NORTHSTAR ELECTRONICS, INC.
Notes to Consolidated Financial Statements
Nine Months Ended September 30, 2010
Unaudited
U.S. Dollars

1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

These consolidated financial statements include the accounts of Northstar Electronics, Inc. ("the Company") and its wholly owned subsidiaries Northstar Technical Inc. ("NTI") and Northstar Network Ltd. ("NNL"). The Company was incorporated May 11, 1998 in the State of Delaware and had no operations other than organizational activities prior to the January 2000 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 takeover resulting in the consolidated financial statements including the results of operations of the acquired subsidiary prior to the merger. All intercompany balances and transactions are eliminated.

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, 2009 Form 10-K and amendments.

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, 2010 and the consolidated results of operations and the consolidated cash flows for the nine months then ended. For the nine months ended September 30, 2010: 100% of the Company's revenues were generated from contracts with two major customers. The Company is continually marketing its services for new and follow-on contracts.

The results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the entire fiscal year. The accompanying consolidated 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, 2010 the Company incurred a net loss of \$670,754 and at September 30, 2010 had a working capital deficiency (an excess of current liabilities over current assets) of \$4,174,987 (December 31, 2009: \$4,193,961), including \$1,186,290 of long term debt due within one year (December 31, 2009: \$1,339,568).

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10-Q

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. Subsequent to the quarter end, the Company secured the first phase of funding for production activities. The Company also expects to increase contract revenues. The Company continues to seek manufacturing more assembly contracts to increase revenue. In that regard, a \$9.1 million contract addition to the Lockheed Martin Aeronautics P-3 contract was received on August 27, 2010. These initiatives are in recognition that the Company to continue as a going concern 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 not certain. 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. SHARE CAPITAL

During the nine months ended September 30, 2010 the following capital transactions occurred:

COMMON STOCK

January 1 to March 31, 2010:

For services: 178,810 shares fairly valued at \$32,191 - the market value of those services

For cash: 1,100,000 shares fairly valued for cash of \$160,000.

For conversion of Preferred shares: 160,000 shares fairly valued for cash of \$32,828

April 1 to June 30, 2010:

For services: 125,964 shares fairly valued at \$23,900 - the market value of those services

For cash: 1,000,000 shares fairly valued for cash of \$125,000.

For prepaid expenses: 508,844 shares fairly valued at \$97,000 - the market value of those expenses

For reduction of a loan payable: 30,000 shares fairly valued at \$6,600 - the amount of the loan repaid

July 1 to September 30, 2010:

For services: 43,000 shares fairly valued at \$4,750 - the market value of those services

For cash: 841,172 shares fairly valued for cash of \$82,059.

PREFERRED STOCK

For cash: 408,000 series A shares of preferred stock for \$342,772 (inclusive of 100,000 preferred shares for \$90,000 received during the three months ended March 31, 2010 and 80,586 preferred shares for \$66,527 received during the three months ended September 30, 2010). The preferred shares bear interest at 10% per annum paid semi annually not in advance and are convertible to shares of common stock of the Company after two years from receipt of funds at a 20% discount to the then current market price of the Company's common stock. The preferred shares may be converted after six months and before two years under similar terms but with a 15% discount to market. At September 30, 2010 the Company had

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10-Q

received \$409,299 for 488,586 preferred shares but had not issued the shares.

3. LONG TERM DEBT

Balance owing December 31, 2009	\$ 2,048,058
Net repayments	(267,400)
Effect of foreign exchange on translation to US	33,053

Balance due September 30, 2010	1,813,711
Less current portion	(1,186,290)

	\$ 627,421
	=====

4. REVENUE

	Nine months 2010	Nine months 2009
	-----	-----
Revenue consists of:		
Product sales	\$ 0	\$ 23,240
Contract sales	2,767,591	2,229,233
Government assistance	0	0
Other	0	4,972
	\$ 2,767,591	\$ 2,227,445

5. CONTINGENCIES

(i) The Company is a defendant in a lawsuit commenced against them in 1999 by their former master distributor. The former product distributor has alleged that the Company 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. There has been no action from either side to date.

(ii) The Company is contingently liable to repay \$1,997,144 in assistance received under the Atlantic Innovation Fund. The assistance is repayable annually at the rate of 5% of gross revenues from sales of products resulting from the Company's Aquacom 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. At June 30, 2010 the Company has accrued \$52,531 as repayable.

6. NEW ACCOUNTING PRONOUNCEMENTS

Management does not believe that any recently issued but not yet effective accounting pronouncements, if currently adopted, would have a material effect on the accompanying consolidated financial statements.

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, 2010 and September 30, 2009 prepared by management and the audited consolidated financial statements for the twelve months ended December 31, 2009 as presented in the Company's Form 10K and amendments as filed.

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10-Q

Although the Company has experienced a net loss this quarter, it continues to expend effort to secure additional contracts for the manufacture and assembly of military/government systems, submarine command and control consoles, multi-mode fiber optic cables, precision, machined parts and other components for aerospace and defense systems.

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

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 contract manufacturer (CM) and a defense systems integrator (DSI).

UNDERWATER SONAR PRODUCTS AND TECHNOLOGIES

A) PROJECT X

The company is seeking arrangements with Lockheed Martin Canada to market the prototype units developed in conjunction with the original Lockheed development team. Production of this unit is anticipated in 2011.

B) DEFENSE SONAR SYSTEMS

The Company is a subcontractor on Lockheed Martin's anti-terrorism Swimmer Detection System (SDS). The SDS is a wide band high frequency sonar system designed specifically to detect and classify underwater terrorist threats. The design and technology is applicable to innovative military sonar products.

DEFENSE CONTRACT MANUFACTURING

The Company, with its updated facilities, completed further details and reviews for prospective new submarine console work from Lockheed Martin Manassas MS2, expects awarding of the contract during this business quarter.

The Company's wholly owned subsidiary, Northstar Network Ltd., continued work on the original Master Purchase Order for the Wing Assembly Upgrade Components for the P-3 ORION aircraft from Lockheed Martin Aeronautics and is presently preparing to start work on the recent \$9.1M addition to the Master Purchase Order. The Company is manufacturing components for new production service life extension kits for this Lockheed Martin Service Life Extension Program. These components will

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10-Q

add more than 15,000 flying hours to each aircraft, representing 15 to 20 additional years of service for this critical maritime patrol and reconnaissance resource.

In addition to the P3 Project, work continued with some delays for the manufacture/assembly of the new Machine Control Consoles and new Trainer Consoles for L3 Communication MAPPS Ltd. for the Canadian Navy Frigate Upgrade program. Over 60 units will be delivered under this contract. The delays were a result of the Company's lack of working capital in the quarter which is presently improving.

SYSTEMS INTEGRATION

The Company continues to enhance its approach to securing and executing large defense contracts by bringing together affiliate companies. The overall affiliate capability, which is substantial, is presented to the prime contractors. Marketing efforts continue in this area to broaden our exposure for manufacturing opportunities.

The aforementioned P3 ORION Master Purchase Order and the L3 Communications MAPPS Ltd. contract are examples of how Systems Integration works for us. In these projects, six subcontractors carry out various tasks, with Northstar bringing all component parts together for engineering, testing, quality control and delivery to the customer.

RESULTS OF OPERATIONS

Comparison of the three and nine months ended September 30, 2010 with the three and nine months ended September 30, 2009:

Gross revenues from sales, miscellaneous income and recovery of research and development for the three month period ended September 30, 2010 were \$528,520 compared to \$875,049 in the comparative prior three month period. Gross revenues from sales, miscellaneous income and recovery of research and development for the nine month period ended September 30, 2010 were \$2,767,591 compared to \$2,257,445 in the comparative prior nine month period.

Sales revenue for the three month period ended September 30, 2010 was \$528,520 (40% decrease) compared to \$875,049 of sales revenue recorded during the same three month period of the prior year. This comparative decrease was primarily due to insufficient funds available to the Company to finance its work in progress.

Sales revenue for the nine month period ended September 30, 2010 was \$2,767,591 (18% increase) comparable to \$2,257,445 in the prior period. Gross margins remained constant at (25%) for the current and prior comparative nine month period. A major effort has been put forward to rectify the lack of working capital and subsequent to the quarter, the Company has secured the first phase (\$250,000) of significant production funding.

The net loss for the three month period ended September 30, 2010 was \$(366,859) (a 27% increase) compared to a net loss of \$(288,009) for the three months ended September 30, 2009. The increase in the loss resulted from the overhead incurred while waiting to commence production on its contracts.

Salaries increased to \$643,797 for the nine months ended September 30, 2010 compared to salaries of \$566,821 for the comparative prior nine months ended September 30, 2009 as the Company expanded its workforce in anticipation of increased contract sales. Salaries had been forecasted to increase slightly as new projects in the aeronautics area were secured.

Travel and business development costs were \$36,999 for the nine months and \$4,193 for the comparative prior period ended September 30, 2009 as the Company

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10-Q

invested in travel to meetings to increase its customer awareness. Additional travel costs were associated with production review requirements.

The Company is actively pursuing contracts for its sonar capabilities in military and anti terrorist applications. Resulting from the Letter of Intent signed with DEW Engineering and Development of Ottawa, ON and our subsidiary, Northstar Network Ltd. (NNL) in June 2010, preliminary assessment work commenced on the preparations necessary for formal quotations expected in the present quarter. Subsequent to the quarter, a bid was submitted to BAE as part of the DEW arrangement. The DEW agreement provides for collaboration between NNL and DEW on a number of Canadian defense projects with potential expenditures up to \$16M over the next several years for the manufacture and /assembly of material components for land-based, military armored vehicles.

Work continued on the mechanical locking devices for a marine design and supply company. Successful completion of the work has led to bid submission for major production expansion of these units. A response is anticipated during the present quarter. In the aeronautics area, preliminary preparation of production requirements is being undertaken for prospective work on the Lockheed Martin C130J Super Hercules program. In addition preliminary assessment is being made for potential work on the LMA JSF35 Joint Strike Fighter program. Request for proposals for component manufacturing on these two major aeronautics projects are anticipated near the end of 2010 or early in 2011.

The Company has taken solid steps to ensure sufficient funding, staffing and added supplier support is in place to take on several of the many prospective projects being pursued at this time.

Cost recoveries of \$nil are comparable to \$nil recovered in the comparative prior nine month period.

COMPARISON OF FINANCIAL POSITION AT SEPTEMBER 30, 2010 WITH DECEMBER 31, 2009

The Company's working capital deficiency increased at September 30, 2010 to \$4,174,987 with current liabilities of \$4,548,735 which are in excess of current assets of \$373,748. At December 31, 2009 the Company had a working capital deficiency of \$4,193,961.

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 annual financial statements at December 31, 2009. 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 the Company may undertake in the future, these estimates may ultimately differ from actual results. Certain accounting policies involve significant judgments and assumptions by us and 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

Edgar Filing: NORTHSTAR ELECTRONICS INC - Form 10-Q

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 shareholders' deficit as a result of its efforts to increase its business activity and customer base. Cash outflow for the nine months ended September 30, 2010 was \$(276,689) compared to a cash outflow of \$(618,298) in the comparative prior nine month period. During the nine months ended September 30, 2010 the Company received \$523,586 from equity funding and paid out \$267,400 to reduce long term debt leaving cash on hand at September 30, 2010 of \$31,994 compared to cash on hand of \$108,486 at December 31, 2009.

Until the Company receives revenues from new contracts 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 preferred share offering pursuant to Regulations D and S with the expectation of obtaining significant working capital funding. Any funds so raised are targeted for contract financing, product development, facilities, marketing and general working capital. At this time, no commitment for funding has been made to the Company.

The Company's continued operations are dependent upon obtaining revenues from outside sources or raising additional funds through debt or equity financing.

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 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. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Options Granted	Date	Exercise Price	Expiry Date

Nil			
Warrants Issued	Date	Exercise Price	Expiry Date

Nil			
Common Stock Issued	Date	Consideration	

1,075,000	January, 2010	cash of \$157,500	

