NORTHSTAR ELECTRONICS INC
Form 10-Q
May 21, 2012

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

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

[ ] 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[X] 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 [X]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 [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

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 MAY 20, 2012: 57,852,824

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

The Company's financial statements, presented below, are based on the fact that the Company is in the process of the disposition of its subsidiary, Northstar Network Ltd.
The financial statements have undergone internal review only and, therefore, any determinations and particular treatments have been made at the sole discretion of management. These interim financial statements have not been reviewed by the Company's auditors

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

	March 31 2012 UNAUDITED	Decem 20 UNAUD
ASSETS		
CURRENT		

Cash and cash equivalents	$ 238	$
Accounts receivable	0	17
Due from Empower	240,000	
Inventory	0	28
Prepaid expenses	2,066	2
	242,304	48
DUE FROM NORTHSTAR NETWORK LTD	1,264,866	
DEFERRED CONTRACT COSTS	0	3
EQUIPMENT	0	3
	$ 1,507,170	$ 55
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 1,051,084	$ 2,43
Loans payable	503,684	70
Repayable government assistance	190,766	
Due to Cabot Management Limited	54,552	5
Due to Directors	903,699	1,08
Deferred revenue	0	14
Current portion of long-term debt (note 3)	542,472	2,06
	3,246,257	6,48
LONG-TERM DEBT (note 3)	0	
	3,246,257	6,48
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:		
54,852,824 Common shares (53,377,824- December 31, 2011)	5,486	
488,586 Preferred series A shares (488,586 - December 31, 2011)	409,299	40
ADDITIONAL PAID-IN CAPITAL	7,097,523	7,05
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	(707,003)	(62
ACCUMULATED DEFICIT	(8,544,392)	(12,78
	$ 1,507,170	$ 55

See notes to the consolidated financial statements

Nature of operations and going concern (note 1) Contingent liabilities (note 5)

NORTHSTAR ELECTRONICS, INC.
Consolidated Statements of Operations
Three Months Ended March 31, 2012 and 2011
Unaudited
U.S.Dollars

	2012	2011
Revenue - note 4	$ 0	$183,975
Cost of goods sold	0	90,844
Gross margin	0	93,131
Other income	0	12,396

	0	105,527
Expenses		
Salaries	0	239,306
Consulting	31,000	0
Finance fees	8,125	0
Professional fees	0	3,028
Management and administration fees	0	45,000
Stock based compensation	0	102,000
Rent	12,000	34,690
Investor relations	0	10,900
Office	1,064	12,621
Travel and business development	0	0
Interest on debt	33,016	211,079
Telephone and utilities	1,500	6,818
Amortization	0	15,903
Foreign exchange	(255)	534
Bad debts	0	4,864
	86,450	686,743
Net from operations before other items	(86,450)	(581,216)
Other Items:		
Loss from discontinued operations	(109,391)	0
Net loss for the period	$ (195,841)	$ (581,216)
Net (loss) per share	$ (0.00)	$ (0.02)
Weighted average number of shares outstanding	54,115,324	36,662,616

See notes to the consolidated financial statements

NORTHSTAR ELECTRONICS, INC.
Consolidated Statement of Changes in Stockholders' Equity
Three Months Ended March 31, 2012
Unaudited
U.S. Dollars

	Number of Shares	$ Par Value	$ Additional Paid-In Capital	$ Other Comprehensive Income (Loss)	$ Accumula Defici
BALANCE DECEMBER 31, 2010	36,143,942	$ 3,614	$ 5,764,443	$ (649,153)	$(10,972,
Currency translation adjustment	-	-	-	24,920	
Issuance ofcommon stock:					
For loans	2,082,112	208	199,792	-	
For cash	9,204,288	921	636,079	-	
For services	5,947,482	595	458,232	-	
Net loss	-	-	-	-	(1,807
BALANCE DECEMBER 31,2011	53,377,824	$ 5,338	$ 7,058,546	$ (624,233)	$(12,780,
Issuance of common stock:					

For services	1,475,000	148	38,977	-	
Net loss for the period	-	-	-	-	(195
Adjustment to foreign exchange	-	-	-	(82,770)	
Gain on planned disposition of subsidary	-	-	-	-	864
Adjustment to assets and liabilities for subsidary to be sold	-	-	-	-	3,566
Balance March 31, 2012	54,852,824	5,486	7,097,523	(707,003)	(8,544
SERIES A SHARES OF PREFERRED STOCK -Balance December 31, 2011					
Series A shares of preferred Stock-Converted to common shares					
Series A shares of preferred Stock-Issued during the Year					
TOTAL STOCKHOLDERS'EQUITY (DEFICIT) MARCH 31, 2012	54,852,824	$ 5,486	$7,097,523	$(707,003)	$ (8,54

See notes to the consolidated financial statements

NORTHSTAR ELECTRONICS, INC.
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2012 and 2011
Unaudited
U.S.Dollars

	2012	2011
Operating Activities		
Net income (loss)	$(195,841)	$(581,216)
Adjustments to reconcile net income (loss) to net cash used by operating activities		
Non cash items:		
Amortization	0	2,085
Issuance of common stock for services	39,125	117,400
Changes in operating assets and liabilities	(711,259)	134,247
Gain on disposition of operating subsidiary	864,896	0
Net cash (used) provided by operating activities	(3,079)	(327,484)
Investing Activities		
Property and equipment	0	0
Net cash (used) provided by investing activities	0	0
Financing Activities		
Issuance of common shares for cash (net of costs)	0	15,000
Loans payable	0	107,370
Increase (repayment) of long term debt	0	59,686
Advances from (repayment to) directors	0	11,841
Net cash (used) provided by financing activities	0	193,897

Effect of foreign exchange on translation	959	8,034
Inflow (outflow) of cash	(2,120)	(125,553)
Cash, beginning of period	2,358	135,311
Cash, end of period	$ 238	$ 9,758

Supplemental information		
Interest paid	$ 0	$109,079
Shares issued for services	$ 39,125	$117,400
Shares issued to settle director's loan	$ 0	$200,000
Corporate income taxes paid	$ 0	$ 0

See notes to the consolidated financial statements

NORTHSTAR ELECTRONICS, INC.
Notes to Consolidated Financial Statements
Three Months Ended March 31, 2012
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, 2011 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 March 31, 2012 and the consolidated results of operations and the consolidated cash flows for the three months then ended. The Company is in the process of the disposition of its operating subsidiary, Northstar Network Ltd, and is restructuring.

The results of operations for the three months ended March 31, 2012 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 three months to March 31, 2012 the Company incurred a net loss of $195,841 and at March 31, 2012 had a working capital deficiency (an excess of current liabilities over current assets) of $3,003,953 (December 31, 2011: $5,998,360), including $542,472 of long term debt due within one year (December31, 2011: $2,061,655). The Company is contingently liable for approximately $4,200,000 to repay assistance received under the Atlantic Innovation Fund (see also note 5).

Management has undertaken initiatives for the Company to continue as a going concern; for example: the Company is attempting to secure an equity financing in the short term . The Company also expects to receive $580,000 in cash and publicly traded stock on or within thirty days of the closing of the disposition of Northstar Network Ltd. The Company intends to complete, shortly, the acquisition of a development stage sonar company that we believe will develop and produce profitable products. 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

COMMON STOCK

During the three months ended March 31, 2012 the following shares of common stock were issued:

For services: 1,475,000 shares fairly valued at $39,125 - the market value of those services

PREFERRED STOCK

Issued for cash:

488,586 series A shares of preferred stock for $409,299. 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.

3. LONG TERM DEBT

Balance owing December 31, 2011	$2,061,655
Reduction on disposal of subsidiary company	(1,519,183)
Effect of foreign exchange on translation to US	-
Balance due March 31, 2012	542,472
Less current portion	(542,472)
	$ 0

The Company is contingently liable for approximately $4,200,000 to repay assistance received under the Atlantic Innovation Fund (see also note 5).

4. REVENUE

	Three months 2012	Three months 2011
Revenue consists of:		
Product sales	$ 0	$ 0
Contract sales	0	183,975
Government assistance	0	0
Other	0	12,396
	$ 0	$ 196,371

5. CONTINGENCIES

(i) The Company is contingently liable to repay $2,294,755 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 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. At March 31, 2011 the Company has accrued $160,595 as repayable.

(ii) The Company is also contingently liable to repay approximately $1,905,245 in ACOA loans received by its former subsidiary company.

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 month periods ended March 31, 2012 and March 31, 2011 prepared by management and the consolidated financial statements for the twelve months ended December 31, 2011 as presented in the Form 10K as filed. The financial information for the three month period ended March 31, 2012 has not been reviewed by the Company's auditor.

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.

RECENT EVENTS

During the quarter, the Company signed a definitive agreement to divest of its subsidiary, Northstar Network Ltd.(NNL), to Empower Technologies Ltd.. The agreement was amended subsequent to the quarter. The amended terms are as follow:

Subject to certain conditions, Empower will pay $140,000 of the cash portion of the purchase price to Northstar by closing, expected to be on or about May 31, 2012 and pay a further $100,000 in 30 days after closing. For the equity portion of the purchase price, $340,000 in Empower common shares will be issued at closing and a further $320,000 in shares at the end of 18 months from closing subject to NNL incurring at least $6M or higher in revenue within the18 months. In both cases, Empower will issue (or arrange to be transferred) to Northstar such number of free trading Empower shares equal to the amount then due divided by the then 10 day weighted average closing price of Empower's shares on the TSX Venture Exchange and subject to any escrow provisions imposed by the TSX Venture Exchange. Empower will assume up to $3M in NNL debt.

As well the Company signed an agreement to acquire, through a share exchange, Echotec Sonar Ltd., a Canadian development stage company specializing in High Definition 3D sonar technologies. The closing of this transaction is expected to be on or about May 23, 2012. Management believes that Echotec can develop and produce profitable products for the defense, Homeland Security, commercial shipping, commercial fishing and cruise ship sectors.

Management expects its actions will allow the Company to build on the technologies, products and markets previously developed by its subsidiary, Northstar Technical Inc, which has been in a non-operating mode this past couple of years.

The Company will also be seeking to acquire a second company, synergistic with Echotec, one which has existing revenues and profits.

THE COMPANY'S SERVICES

Although the Company has experienced a net loss this quarter, we will continue to expend efforts to acquire contracts in the defense sector in addition to its plans to develop products and systems for that sector and for the Homeland Security, commercial shipping, commercial fishing and cruise ship sectors.
We are looking for external funding partners in order to inject the necessary capital to develop systems for use in multiple sectors, and will be interested in establishing working relationships with companies in North America and Europe, either through partnerships or Joint Ventures, for joint projects or other contractual arrangements.

UNDERWATER SONAR PRODUCTS AND TECHNOLOGIES

Northstar developed its own sonar systems for commercial fishing, and developed systems for the detection of potential underwater terrorist threats to protect navy ships.

The Company, through its subsidiary, Northstar Technical, and with the expected acquisition of Echotec Sonar, will remain an underwater advanced sonar technology development and product company.

The Company's new sonar technologies will provide 3-D High Definition images from small footprint devices, making the need for heavy and expensive equipment unnecessary. With continued internal and third party investment, we expect our sonar line will be the strongest, most visually acute in the industry.

The Company's core technologies can be used to develop systems for defense and anti-terrorism/homeland security to help prevent underwater or small surface craft attacks on naval ships, harbors and naval bases. In addition, the Company will investigate to see if it can adapt its expected systems to commercial shipping, for obstacle avoidance and ship security when in port. The company previously developed, under contract to Lockheed Martin Canada, a specialized underwater sonar system and built a prototype unit.

DEFENSE CONTRACT MANUFACTURING

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

RESULTS OF OPERATIONS

Comparison of the three months ended March 31, 2012 with the three months ended March 31, 2011. The results shown here are based on the fact that the Company is in the process of the disposition of its subsidiary, Northstar Network Ltd.

Revenue from sales for the three month period ended March 31, 2012 are reported as $0 compared to $183,975 of revenue from sales recorded during the same period of the prior year, due to the fact that the Company is in the process of the disposition of its subsidiary, Northstar Network Ltd. Gross profits decreased from $93,131 (50% of sales) in the prior period to $0 in the current period.
The net loss for the three-month period ended March 31, 2012 was $195,841 compared to a net loss of $581,216 for the three months ended March 31, 2011. The decrease in net loss was in part due to the fact the Company is in the process of the disposition of the subsidiary company. Another contributing factor to the increase in loss for the quarter was interest accrued on government loans, contingencies and on trade payables.

COMPARISON OF FINANCIAL POSITION AT MARCH 31, 2012 WITH MARCH 31, 2011

The Company's working capital deficiency at March 31, 2012 was $3,003,953 with current liabilities of $3,246,257 which are in excess of current assets of $242,304. At December 31, 2011 the Company had a working capital deficiency of $5,998,360.The Company is contingently liable to repay approximately $4,200,000 in loans received by its former subsidiary company.

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, 2011. 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 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 arrangements, financings or other relationships with unconsolidated entities or other persons, also known as "special purpose entities".

LIQUIDITY AND CAPITAL RESOURCES

The Company has disposed of its operating subsidiary company.
Cash outflow for the first quarter ended March 31, 2012 was $(2,120) compared to an outflow of cash of $(125,553) in the comparative prior quarter March 31, 2011. In the quarter, the Company received $0 ($15,000 in the comparative prior quarter) from equity funding and received $nil (received $nil in the comparative quarter) long term debt leaving cash on hand at March 31, 20112 of $238 compared to cash on hand of $2,358 at December 31, 2011 and $135,311 at March 31, 2011. Until the Company receives revenues from new contracts and/or increases in product sales revenue, it will be dependent upon equity and loan financings to compensate for the outflow of cash anticipated from operations.

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-Q, 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
During the three month period ended March 31, 2012 the Company issued nil share purchase warrants.

Common Stock Issued	Date	Consideration

1,475,000	February, 2012	services valued at $39,125

Preferred Stock Subscribed
nil

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

No change since previous filing.

Exhibit 31.1-CEO/CFO Certification

Exhibit 32.1-CEO/CFO Certification

SIGNATURES

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

May 21, 2012 Northstar Electronics, Inc.
(Registrant)

By: /s/ Wilson Russell

Wilson Russell, PhD, President and Chief Financial Officer