

INTERNATIONAL STAR INC  
Form 10-Q  
November 22, 2010

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 2010

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-28861

INTERNATIONAL STAR, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

86-0876846  
(I.R.S. Employer  
Identification No.)

1818 Marshall Street, Shreveport, LA  
(Address of principal executive offices)

71101  
(Zip Code)

(318) 464-8687

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(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

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submit and post such files).  Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Yes  No

As of November 1, 2010, there were 282,012,274 shares of the registrant’s Common Stock issued and outstanding.

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INTERNATIONAL STAR, INC.  
Form 10-Q  
For the Quarterly Period Ended September 30, 2010

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following unaudited financial statements of International Star, Inc. have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, these financial statements may not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the audited financial statements and the notes thereto for the fiscal year ending December 31, 2009. In the opinion of management, these unaudited financial statements contain all adjustments necessary to fairly present the Company's financial position as of September 30, 2010, and its results of operations and its cash flows for the nine-month period ended September 30, 2010.

INTERNATIONAL STAR, INC.  
AND SUBSIDIARIES  
(An Exploration Stage Company)  
CONSOLIDATED BALANCE SHEETS

	(Unaudited)	(Audited)
ASSETS	September 30, 2010	December 31, 2009
Current Assets:		
Cash	\$3,613	\$48,588
Prepaid expenses	--	--
Total Current Assets	3,613	48,588
Property and Equipment		
– net of accumulated depreciation of \$1,345 at September 30, 2010 and \$1,133 at December 31, 2009	239	451
Total Assets	\$3,852	\$49,039
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Accounts payable	\$385,548	\$334,995
Accrued expenses	36,868	23,687
Accrued interest on note payable – related party	136,799	79,463
Note payable – related party	200,000	200,000
Shareholder deposits	--	250
Advances from shareholder	200,000	116,817
Total Current Liabilities	961,215	755,212
Long Term Liabilities:		
Long term note payable – related party	500,000	500,000
Total Long Term Liabilities	500,000	500,000
Total Liabilities	1,461,215	1,255,212
Stockholders' Deficiency:		
Preferred Stock		
20,000,000 shares authorized,		
Undesignated par value – none issued	--	--
Common Stock		
780,000,000 shares authorized, at \$.001 par value;		
282,012,274 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	282,012	282,012
Capital in excess of par value	4,487,009	4,431,009
Deficit accumulated during the exploration stage	(6,226,384 )	(5,919,194 )
Total Stockholders' Deficiency	(1,457,363 )	(1,206,173 )

Total Liabilities and Stockholders' Deficiency	\$3,852	\$49,039
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See accompanying notes to the consolidated financial statements.

## INTERNATIONAL STAR, INC.

AND SUBSIDIARIES  
(An Exploration Stage Company)  
CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

	Three months ended Sep. 30,		Nine months ended Sep. 30,		January 1, 2004 (date of inception of exploration stage) to September 30, 2010
	2010	2009	2010	2009	
<b>Revenue:</b>					
Total Revenue	\$--	\$--	\$--	\$--	\$--
<b>Expenses:</b>					
Mineral exploration costs	2,683	1,235	24,023	44,765	932,810
Professional fees	29,799	55,401	111,152	97,793	850,287
Compensation & management fees	10,500	11,303	87,500	34,620	1,544,201
Depreciation & amortization	70	69	212	213	15,169
General & administrative	6,177	2,556	26,640	30,455	518,330
Total Operating Expenses	49,229	70,564	249,527	207,846	3,860,797
Net (Loss) from Operations	\$(49,229 )	\$(70,564 )	\$(249,527 )	\$(207,846 )	\$(3,860,797 )
<b>Other Income and Expenses:</b>					
Interest income	\$--	\$--	\$--	\$--	\$2,939
Other income	--	--	--	3,522	3,535
Interest expense	(19,393 )	(12,603 )	(57,336 )	(33,155 )	(197,801 )
Other expense	--	--	(327 )	(50 )	(377 )
Loss on disposal of assets	--	--	--	(7,902 )	(20,531 )
Loss on divestiture of subsidiary	--	--	--	--	(99,472 )
Total Other Income (Expense)	(19,393 )	(12,603 )	(57,663 )	(37,585 )	(311,707 )
Net (Loss)	\$(68,622 )	\$(83,167 )	\$(307,190 )	\$(245,431 )	\$(4,172,504 )
<b>Weighted Average Shares</b>					
Common Stock Outstanding (Basic and Diluted)	282,012,274	281,762,274	282,012,274	280,549,274	
<b>Net Loss Per Common Share</b>					
(Basic and Diluted)	\$(0.00 )	\$(0.00 )	\$(0.00 )	\$(0.00 )	

See accompanying notes to the financial statements.





INTERNATIONAL STAR, INC.  
AND SUBSIDIARIES  
(An Exploration Stage Company)  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

	Nine Months Ended Sep. 30, 2010	2009	January 1, 2004 (date of inception of exploration stage) to September 30, 2010
<b>Cash flows from operating activities:</b>			
Net (loss)	\$(307,190 )	\$(245,431 )	\$(4,172,504 )
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation & amortization	212	213	15,170
Loss on disposal of assets	--	8,401	20,531
Loss on divestiture of subsidiary	--	--	99,472
Stock based compensation expense	56,000	--	56,000
Common stock issued for services	--	--	211,500
Changes in operating assets and liabilities:			
Accounts receivable and prepaid expenses	--	11,388	79,795
Inventories	--	--	63,812
Other assets	--	--	95,474
Accounts payables and accrued expenses	65,734	53,697	394,248
Accrued interest on related party notes	57,336	--	118,399
Net cash used in operating activities	(127,908 )	(171,732 )	(3,018,103 )
<b>Cash flows from investing activities:</b>			
Proceeds from disposal of assets	--	--	499
Purchase of fixed assets	--	--	(29,355 )
Net cash provided by investing activities	--	--	(28,856 )
<b>Cash flows from financing activities:</b>			
Repayments of long term borrowings	--	--	(25,000 )
Proceeds from exercise of warrants	--	--	4,000
Shareholder deposits	(250 )	(3,375 )	--
Proceeds from advances from shareholder	83,183	--	200,000
Proceeds from notes payable – related party	--	170,000	725,000
Proceeds from sale of common stock	--	--	1,782,426
Net cash provided by financing activities	82,933	166,625	2,686,426
Net increase (decrease) in cash and cash equivalents	(44,975 )	(5,107 )	(360,533 )
Cash and cash equivalents, beginning of period	48,588	8,889	364,146
Cash and cash equivalents, end of period	\$3,613	\$3,781	\$3,613

Supplemental non-cash financing activities:

Common stock issued for deposits	\$--	\$3,750	\$3,750
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See the accompanying notes to the consolidated financial statements.

INTERNATIONAL STAR, INC.

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

A. BASIS OF PRESENTATION

The interim consolidated financial statements of International Star, Inc. and subsidiaries (the “Company”) for the nine months ended September 30, 2010 and 2009, are not audited. The financial statements are prepared in accordance with the requirements for unaudited interim periods, and consequently do not include all disclosures required to be in conformity with accounting principles generally accepted in the United States of America.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the Company’s financial position as of September 30, 2010, and the results of its operations and cash flows for the nine months ended September 30, 2010.

The results of operations for the nine months ended September 30, 2010, are not necessarily indicative of the results for a full year period.

B. SIGNIFICANT ACCOUNTING POLICIES

1. Principles of Consolidation and Accounting Methods

These consolidated financial statements include the accounts of International Star, Inc., and Qwik Track, Inc. (a wholly owned subsidiary). Qwik Track, Inc. has no assets and has not had any operations during the previous three years.

2. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Dividend Policy

The Company did not declare or pay any dividends during the nine months ended September 30, 2010 and 2009. There are no legal, contractual or other restrictions, which limit the Company’s ability to pay dividends. Payment of future dividends, if any, on the Company’s common stock, will be dependent upon the amounts of its future after-tax earnings, if any, and will be subject to the discretion of its Board of Directors. The Company’s Board of Directors is not legally obligated to declare dividends, even if the Company is profitable. The Company has never paid any dividends on its common stock and has no plans to do so in the near future. Instead, the Company plans to retain any earnings to finance the development of its business and for general corporate purposes.

4. Mineral Properties and Equipment

The Company has expensed the costs of acquiring and exploring its properties during the periods in which they were incurred, and will continue to do so until it is able to determine that commercially recoverable ore reserves are present

on the properties. If it determines that such reserves exist, it will capitalize further costs.

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5. Basic and Dilutive Net Income (Loss) Per Share

Basic net income (loss) per share amounts are computed based on the weighted average number of shares issued and outstanding. Diluted net income (loss) per share amounts are computed using the weighted average number of common shares and common equivalent shares outstanding as if shares had been issued on the exercise of any common share rights unless the exercise becomes anti-dilutive and then only the basic per share amounts are shown in the report. At September 30, 2010, the Company had no common equivalent shares of stock outstanding.

6. Comprehensive Income

The Company reports any foreign currency translation adjustments, reported separately in its Statement of Stockholders' Equity, in other comprehensive income. Such amounts are immaterial and have not been reported separately. The Company had no other forms of comprehensive income since inception.

7. Stock Based Compensation

The Company accounts for its stock based compensation and stock options using the fair value method. Under this method, share-based awards are fair valued and the related stock compensation expense, when applicable, is reported in the current financial statements.

8. Income Taxes

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, all expected future events, other than enactment of changes in the tax laws or rates, are considered.

Due to the uncertainty regarding the Company's future profitability, the future tax benefits of its net operating losses have been fully offset by a valuation allowance.

9. Fair Value of Financial Instruments

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, prepaid expenses, accounts payable and accrued expenses, notes payable, shareholder deposits and advances from shareholder.

10. Recent Accounting Pronouncements

The Company does not expect that the adoption of other recent accounting pronouncements will have a material effect on its financial statements.

11. Revenue Recognition

Revenue will be recognized on the sale and delivery of a product or the completion of a service provided.

12. Statement of Cash Flows

For the purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of nine months or less to be cash equivalents.

13. Financial and Concentration Risk

The Company does not have any concentration or related financial credit risk.

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C. DIVESTITURE OF PITA KING BAKERIES INTERNATIONAL, INC.

Effective January 1, 2004, the original shareholders of Pita King Bakeries International, Inc. and the management of the Company mutually agreed to dissolve their business relationship. Under terms of this dissolution, the original shareholders of Pita King Bakeries International, Inc. returned 4,000,000 shares of common stock to the Company and the Company agreed to forgive a \$35,000 loan made to Pita King Bakeries International, Inc. The original shareholders of Pita King Bakeries International, Inc. were allowed to retain 139,500 shares of the Company's common stock which they had received as part of the original purchase of Pita King Bakeries International, Inc. by the Company. The Company has recognized a loss of \$99,472 on the divestiture of Pita King Bakeries International, Inc.

D. COMMON STOCK

During the nine months ended September 30, 2010, the Company did not issue any shares of common stock.

E. RELATED PARTY TRANSACTIONS

The Company entered into a loan agreement with Kilpatrick's Rose-Neath Funeral Homes, Crematorium and Cemeteries, Inc. on December 3, 2007. This company is controlled through ownership by a shareholder/director of International Star, Inc. Under terms of the agreement, the Company has an available credit line balance of \$500,000 with interest accruing at 6% per annum. The interest is due and payable on a quarterly basis (every three months). The loan is collateralized by a security interest to the above mentioned lender in the amount of 51% interest in the mineral rights of all mining claims owned by the Company or in which the Company has an interest in its properties located in Mohave County, Arizona, along with any future claims acquired by the Company. At September 30, 2010, the Company had borrowed \$500,000 under the terms of this loan agreement and had accrued interest of \$78,599. The principal amount borrowed, together with accrued interest, is due and payable on December 3, 2012.

The Company entered into another loan agreement with Kilpatrick's Rose-Neath Funeral Homes, Crematorium and Cemeteries, Inc. on December 1, 2008. Under terms of the agreement, the Company has an available credit line of \$200,000 with interest accruing at 10% per annum. The interest rate increased from 10% to 18% per annum as of March 31, 2009, which was the maturity date of the Note. At September 30, 2010, the Company had borrowed \$200,000 under the terms of this loan agreement, and had accrued interest of \$58,200.

For the nine month period ended September 30, 2010, a shareholder has advanced \$200,000 to the Company (\$116,817 as of December 31, 2009). These advances are payable on demand and non-interest bearing.

F. GOING CONCERN

The Company will need additional working capital for its future planned activity and to service its debt, which raises substantial doubt about its ability to continue as a going concern. Continuation of the Company as a going concern is dependent upon obtaining sufficient working capital to be successful in that effort. The management of the Company has developed a strategy, which it believes will accomplish this objective, through additional loans, and equity funding, which will enable the Company to operate for the coming year.

G. STOCK OPTIONS

On April 28, 2010, the Company issued 10,000,000 stock options to its President. These options are fully vested as of the grant date, have a contractual term of 5 years, and are exercisable at \$0.01 per share. The Company uses the Black-Scholes model to estimate the fair value of its options. Assumptions used in calculating the fair value for these

options were as follows: Exercise price of stock option – \$0.01; Fair value of stock – \$0.01; Expected term – 5 years; Expected volatility – 0.69; Expected dividends – \$0.01; Risk free interest rate – 0.43%. Using these assumptions, we estimated the grant date fair value of these options to be \$0.0056 per option, or \$56,000. This amount was recorded as compensation expense in our financial statements for the period ended September 30, 2010. As no options were exercised subsequent to grant date, all 10,000,000 options are still outstanding. Other information regarding the number of options outstanding and exercisable at September 30, 2010 is as follows:



	Outstanding	Exercisable
Number of options	10,000,000	10,000,000
Weighted average contractual term (years)	5.0	5.0
Weighted average exercise price	\$ 0.01	\$ 0.01
Aggregate intrinsic value	\$ 0	\$ 0

#### H. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 19, 2010, which is the date the financial statements were issued.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### GENERAL

#### Cautionary Note Regarding Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that reflect our management's current views with respect to future events and financial performance. Those statements include statements regarding our intent, belief or current expectations, and those of members of our management team, as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by us throughout this Quarterly Report, as well as in our other reports filed by us with the Securities and Exchange Commission ("SEC"). Important factors not currently known to management could cause actual results to differ materially from those in forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results over time. We believe that our assumptions are based upon reasonable data derived from and known about our business and operations. No assurances are made that actual results of operations or the results of any future activities will not differ materially from our assumptions.

Since our trading shares are classified as "penny stocks", we are not entitled to rely upon the "safe harbor" provisions adopted by the SEC under the Securities Exchange Act of 1934 (the "Exchange Act") with respect to forward-looking statements. Nevertheless, investors are urged to give serious consideration to those factors which we have identified as outside of our control, and the consequences to us and our investors if our anticipated results do not come to pass as expected as a result of material deviations which may occur from the assumptions we have relied upon in making forward-looking statements.

#### Our Business

We were organized under the laws of the State of Nevada on October 28, 1993, as Mattress Showrooms, Inc. In 1997, we changed our corporate name to International Star, Inc. and became engaged in the business of construction, sale and operation of state of the art waste management systems, specializing in turnkey systems for management of hospital, industrial, petroleum, chemical and municipal solid waste collection systems. Despite our efforts, we were unable to develop this business beyond the start-up stage. Following our unsuccessful venture in waste management, we refocused our business efforts on mineral exploration in 1998. Currently, we are primarily engaged in the acquisition and exploration of precious and base metals mineral properties.

Since 1998, we have examined various mineral properties prospective for precious and base metals and minerals and have acquired interests in those we believe may contain precious and base metals and minerals. Our properties are located in Arizona. Although we have confirmed the existence of mineralization in some of our properties, we have not established that any of our properties contain reserves. A reserve is that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Further exploration will be needed before a final determination can be made whether any mineral extraction on our property is economically and legally feasible. Therefore, at present we have no reserves and no income from mineral production.

Our determination as to whether any of the mineral properties we now hold, or which we may acquire in the future, contain commercially mineable deposits, and whether such properties should be brought into production, will depend

upon the availability of financing, the results of our exploration program and independent feasibility analysis and the recommendation of engineers and geologists. We cannot be certain that any of our properties contain commercially mineable mineral deposits, and no assurance can be given that we will ever generate a positive cash flow from production operations on such properties.

## Going Concern

We have incurred substantial operating and net losses, as well as negative operating cash flow, since our inception. Accordingly, we continued to have significant stockholder deficits and working capital deficits during the year ended December 31, 2009, as further explained in our Annual Report on Form 10-K for the year ended December 31, 2009. In recognition of these trends, our independent registered accountants included cautionary statements in their report on our financial statements for the year ended December 31, 2009, that expressed “substantial doubt” regarding our ability to continue as a going concern. Specifically, our independent accountants have opined that the continuation of our Company as a going concern is dependent upon obtaining sufficient working capital to be successful in that effort.

Our ability to continue as a going concern is dependent on obtaining additional working capital. Our management has developed a long-term strategy for generating revenues from our mineral properties, with a short-term focus on obtaining additional equity or debt funding until such operating revenues can be generated. We will continue to consider and pursue available and feasible options to raise additional capital to fund our operating costs and to continue work on establishing the existence of mineral reserves within our properties to enable us to seek feasible revenue generating opportunities. We do not anticipate generating any revenue from our mineral properties during the fourth quarter of 2010.

We have used funds obtained through cash advances from our Chairman to satisfy most of our current operating and exploration expenses through the third quarter of 2010. See “– GENERAL – Financing.” Subsequent to September 30, 2010, we secured additional capital through debt financing to fund our existing and anticipated operating costs and our planned mineral exploration work for the remainder of 2010 and a portion of 2011. However, unless and until we are able to generate substantial revenues from our mineral properties, we will need to raise additional equity or debt financing in 2011 to continue to fund future operating costs and mineral exploration work and to service our debt obligations. We cannot assure that we will be able to obtain the necessary funding or, even if such financing is obtained, that we will be able to establish the existence of mineral reserves or generate revenues from our properties sufficient to sustain our continued operations or at all.

## Our Properties

We currently hold interests in properties that we believe show potential for mineral development. These properties consist of unpatented mining claims located on federal public land managed by the United States Department of Interior, Bureau of Land Management (“BLM”). We are obligated to pay a maintenance fee to the BLM of \$189 per claim plus a \$14 local filing fee for each newly filed claim and \$140 per claim per year for each existing claim.

Unpatented mining claims are “located” or “staked” by individuals or companies on particular parcels of federal public land upon which the individual or company asserts the right to extract and develop a mineral deposit. Mining claims may be one of two types: lode and placer. Lode claims are claims on land where mineral deposits have been discovered encased in or surrounded by hard rock, such as veins, fissures, lodes and disseminated ore bodies. Placer claims are claims upon land containing deposits of loose, unconsolidated material, such as gravel beds, or containing certain consolidated sedimentary deposits lying at the surface. Federal law limits each lode claim to no more than 1,500 feet along the length of the deposit and no more than 300 feet to either side of the center line of the deposit. A placer claim may be up to 20 acres for a single individual or corporation, and up to as many as 160 acres for an association of at least eight owners.

If the statutes and regulations for the location and maintenance of a mining claim are complied with, the locator obtains a valid possessory right to the contained minerals. Failure to pay maintenance fees may render the mining

claim void or voidable. We believe we have valid claims, but, because mining claims are self-initiated and self-maintained, it is impossible to ascertain their validity solely from public real estate records. If the government challenges the validity of an unpatented mining claim, we would have the burden of proving the present economic feasibility of mining minerals located on the claims.

## Detrital Wash, Mohave County, Arizona Property

### Property and Location

Our Detrital Wash property (the “Detrital Wash Property”) consists of approximately one square mile of land located approximately 56 miles from Las Vegas, Nevada, and 22 miles south of the Hoover Dam on U.S. Highway 93, Mohave County, Arizona. The property is easily accessed by partially paved entry off Highway 93 and has availability to electricity and water.

Our Detrital Wash Property consists of approximately 30 lode claims located in the Black Mountains in the Detrital Wash area in northwestern Arizona. These claims were staked by the Company over or nearby the Company’s previous placer claims acquired in 1998 through a mineral lease and in 2004 through an exploration rights agreement. We released all of our placer claims in the Detrital Wash Property in 2008 due to insufficient placer mineralization. We have recorded 18 of our existing lode claims with the BLM and Mohave County. These lode claims cover areas of bedrock mineralization indicated by historical data obtained by the Company and confirmed by geochemical assays of mineral samples performed for the Company by licensed independent labs and evaluated according to National Instrument (NI) 43-101 standards, as well as other areas where we have obtained evidence of mineralization occurring in the bedrock. Based on the presence of gold producing mines in the Black Mountains area and the data we have collected, we believe deposits of precious and base metals may exist within the Detrital Wash Property. We cannot assure that we will discover such deposits or that, if such deposits are discovered, we will be able to commercially produce such mineral deposits.

Prior to September 1, 2010, we held approximately 78 recorded lode claims in our Detrital Wash Property. During the second quarter of 2010, we analyzed the assay and mapping data we have collected since 2008 and the results of our drilling, mapping and assay work during the first quarter of 2010 on these claims. Based on this analysis and the recommendations of our geologists, we believe further exploration work is needed to determine the mineral deposit potential with respect to 18 of our Detrital Wash claims, and therefore, we renewed these 18 claims for the coming year. However, we did not believe the remaining 60 claims in the Detrital Wash Property exhibited sufficient mineralization to warrant additional exploration work. Therefore, we allowed these claims to expire on August 31, 2010. We have since located additional lode claims near our existing claims, which together make up our Detrital Wash Property.

Historically, from time to time, various third parties have located or attempted to locate placer and lode claims over portions of our lode claim holdings in the Detrital Wash Property. As of this Report, we do not believe there are currently any valid claims conflicting with our existing claims in this area. We plan to continue to monitor for and investigate any claims that appear to conflict with our Detrital Wash lode claims. We believe our lode claims are properly located and that we have valid and superior legal interest in these properties over any subsequent claim holders.

During the first nine months of 2010, we paid a total of \$615 in filing fees for claims in the Detrital Wash Property. In addition, our Chairman, on behalf of the Company, paid a total of \$2,520 in annual maintenance fees to the BLM for the 18 previously recorded lode claims in the Detrital Wash Property. We have agreed to reimburse our Chairman for this payment.

### Operations

In 2008, our geology and mining engineer consultants developed a program of testing geological samples from our Detrital Wash Property for mineralization and mapping the existing geology. Assay results from the initial phases of

this program during 2008 and 2009 indicate significant copper and molybdenum mineralization in the areas of our Detrital Wash claims as well as the presence of gold and silver rich zones of mineralization along trends containing historically mined deposits. Based on the results of these assays, we have progressively modified our claim holdings in the Detrital Wash area to focus our limited financial resources on the areas that we believe, based on the assessments of our geologists, hold the most significant potential for mineral reserves. During 2010, we have conducted drilling and additional sampling and mapping work on certain areas of our Detrital Wash Property showing high mineralization results from our previous assays in an effort to further assess the extent and value of the mineralization in our claim holdings. See “– GENERAL – Exploration Program” for more information regarding our exploration program.

We continue to consider options to raise additional capital to fund our planned exploration work and our ongoing operating and compliance costs. In October 2010, we obtained \$200,000 in debt financing to implement our next phase of exploration work and to fund our operations for the remainder of 2010 and a portion of 2011. See “– GENERAL – Financing.” As part of this phase, we plan to conduct additional geochemical and geophysical testing to further evaluate the mineral reserve potential of our Detrital Wash Property. Based on the recommendations of our geologists, we may locate additional claims or release existing claims depending on our assessments of their mineral potential and available funds. We also plan to continue to seek potential joint venture or other opportunities to complete the exploration work and to bring the property to the production stage should sufficient reserves be established. However, we have limited financial resources and cannot guarantee that we will have, or be able to obtain, the necessary funds to complete our planned exploration activities. See “– GENERAL – Plan of Operation” and “– Going Concern.”

#### Wikieup, Arizona Property

As of September 1, 2010, we no longer hold any mining claims in our former Wikieup property (the “Wikieup Property”). The Wikieup Property formerly consisted of 42 lode claims comprising approximately 840 acres in the Hualapai Mountain Range at Wikieup, Arizona. We acquired the Wikieup claims from Gold Standard Mines, Inc. in March 2001 in exchange for 1,000,000 shares of our restricted common stock having an aggregate value of \$400,000 as of the date of the acquisition. We received from Gold Standard Mines a notarized quitclaim deed granting us all rights, interest and title to these claims. The deed was subsequently recorded at the BLM office in Phoenix, Arizona, and at Mohave County in Kingman, Arizona.

Based on the significant costs expected to initiate a substantial exploration program for the Wikieup Property, we determined that exploration of the Wikieup Property would not be economically feasible at any time during the near future and that the cost to continue maintaining these claims was not justifiable given our limited financial resources. In order to focus our resources on our Detrital Wash Property, we chose not to renew the Wikieup claims beyond their expiration date on August 31, 2010.

We did not engage in any development activities or incur any filing or maintenance fees for our claims in the Wikieup Property during 2010.

#### Financial Condition and Results of Operations

We have incurred substantial net losses since our inception as an exploration stage company. Our ability to generate revenue is dependent on our ability to establish the existence of mineral reserves on our properties. We have not generated any revenue during any period since the date of our inception, and unless and until we establish that such reserves exist and are able to commercial extract those reserves, we will not have any revenue from our mineral operations.

Our current management has engaged consultants who have developed an exploration plan involving various methods of geochemical and geophysical testing, in compliance with industry standards, to determine whether mineral reserves exist on our properties. We have conducted mapping and sampling activities as part of this plan, including multiple phases of assaying collected geological samples. We believe the assay results obtained thus far justify implementation of further phases of this exploration plan. See “– GENERAL – Plan of Operation.” However, further implementation of this plan is dependent on our obtaining additional debt or equity financing.



As of this Report, we have obtained funds to implement the next phase of our exploration program on our Detrital Wash Property and to fund our operating and compliance costs for the remainder of 2010 and a portion of 2011. However, additional funding may be needed to complete exploration work on our properties and to continue to fund our future operating and compliance costs. We cannot guarantee that we will obtain any such financing on terms that will be favorable to us or at all, or, even if such financing is obtained, that we will determine that mineral reserves exist or that we will be able to commercially exploit any reserves found on our properties. See “– GENERAL – Going Concern.”

As of September 30, 2010, our total assets are \$3,852, consisting of \$3,613 in cash and \$239 in property and equipment, net of depreciation. Our total assets at December 31, 2009, were \$49,039 consisting of \$48,588 in cash and \$451 in property and equipment, net of depreciation. The decrease in our total assets during the nine months ended September 30, 2010, is attributable to the reduction in our cash due to the use of the funds advanced by our Chairman in November 2009 and January and April 2010 to pay our exploration and other operating expenses during the first nine months of 2010, which consisted largely of costs associated with our drilling, assaying, sampling and mapping activities, legal compliance expenses accrued during 2009, accounting expenses and our payment of an outstanding balance owed to the IRS for unpaid payroll taxes, penalties and interest from 2006. We anticipate a significant increase in cash for the fourth quarter of 2010 due to the additional financing we obtained after the end of the third quarter.

Our total liabilities as of September 30, 2010, are \$1,461,215, an increase of \$206,003 over total liabilities at December 31, 2009, of \$1,255,212. This increase is attributable partly to an additional \$83,183 in cash advances provided by our Chairman in 2010 to fund our exploration activities and general operating and compliance costs during the period, along with a \$50,553 increase in accounts payable, a \$15,181 increase in accrued expenses related to unpaid compensation owed to our President and an additional \$57,336 in accrued interest on our two lines of credit obtained in December 2007 and December 2008, respectively, which we have been unable to pay due to a lack of funds. See Footnote E in the Notes to the Consolidated Financial Statements and “– GENERAL – Financing” for more information about our lines of credit. We anticipate that our liabilities during the fourth quarter of 2010 will depend substantially on the extent to which we are able to implement our next phase of exploration activity during the quarter as offset by our ability to pay down current accounts payable and accrued expenses as a result of our recently obtained additional financing.

#### Nine Months Ended September 30, 2010, Compared to Nine Months Ended September 30, 2009

**Net Loss.** Our net loss for the nine months ended September 30, 2010, was \$307,190, compared to a net loss of \$245,431 during the nine months ended September 30, 2009, an increase of 25.16%. The increase in our net loss for the first nine months of 2010 over the first nine months of 2009 was due primarily to a significant increase in our compensation and management fees expense related to our issuance of stock options and increases in professional fees expense and interest expense during the first three quarters of 2010 as compared to the same period in 2009. These increases were partially offset by substantially lower mineral exploration costs expense and by reduced general and administrative expenses.

**Mineral Exploration Costs Expense.** Mineral exploration costs expense for the nine-month period ended September 30, 2010, was \$24,023, compared to \$44,765 for the nine-month period ended September 30, 2009, a decrease of \$20,742, or 46.34%. This significant decrease was largely attributable the amounts expended in the first nine months of 2009 to file new lode claims in our Detrital Wash Property and for assays of a large number of mineral samples collected from the property in 2008. See “–GENERAL – Exploration Program.” The decrease also reflects our decision to significantly reduce our unfiled lode claim holdings during the second quarter of 2009 in light of our limited financial resources and to narrow our exploration efforts to areas that we believe contain the highest potential for mineral reserves. Mineral exploration costs during the first nine months of 2010 consisted primarily of expenses in connection with our drilling, assaying, sampling and mapping activities on our Detrital Wash Property. During the first nine months of 2009, our exploration costs consisted of expenses related to assaying of previously collected mineral samples from our Detrital Wash Property, paying claim filing fees, and general maintenance of our Detrital Wash claims.

**Professional Fees Expense.** Professional fees expense for the first nine months of 2010 increased over the same period in 2009 by \$13,359, or 13.66%, to \$111,152, compared to \$97,793 during the first nine months of 2009. Our

professional fees for the first nine months of 2010 consisted mostly of general legal and accounting fees and fees paid to our consultant geologists for work related to our exploration program. The increase for the interim period of 2010 over the interim period in 2009 is mostly due to additional costs associated with our drilling, sampling and mapping activities in 2010 and ordinary legal and accounting expenses incurred in the first three quarters of 2010. Our professional fees for the first nine months of 2009 consisted primarily of fees paid to our geologists, payments for legal fees incurred during 2008, and legal and accounting compliance expenses for 2009.

**Compensation and Management Fees Expense.** Our compensation and management fees expense during the first three quarters of 2010 increased by \$52,880, or 152.74%, from \$34,620 during the first three quarters of 2009 to \$87,500 during the first three quarters of 2010. The over 150% increase was due primarily to our issuance of a fully vested stock option for 10,000,000 shares of our common stock to our President in April 2010 pursuant to his employment agreement. This increase was offset in part by the additional expense incurred in 2009 due to the payment in the first quarter of 2009 of accrued compensation to our President from the fourth quarter of 2008.

**Depreciation and Amortization Expense.** Depreciation and amortization expense was essentially unchanged from the first nine months of 2009 to the first nine months of 2010.

**General and Administrative Costs Expense.** Our general and administrative costs decreased by \$3,815, or 12.53%, to \$26,640 during the nine-month period ended September 30, 2010, compared to \$30,455 during the nine-month period ended September 30, 2009. The decrease in general and administrative expense is attributable to reduced administrative expenditures during 2010 due to our more limited operating funds.

**Interest Income and Other Income.** We did not have any interest income during the nine-month period ended September 30, 2010, or during the same period in 2009. During the period ended September 30, 2009, we recorded other income of \$3,522 as a result of a tax refund the Internal Revenue Service for overpayments of payroll tax from a prior period. We did not have any other income during the interim period in 2010.

**Interest Expense.** During the first three quarters of 2010, we incurred interest expense of \$57,336 as a result of interest accruing on our two lines of credit obtained from Kilpatrick's Rose-Neath Funeral Homes, Crematorium and Cemeteries, Inc. in December 2007 and December 2008, respectively. The substantial increase in our interest expense from \$33,155 for the first three quarters of 2009 is due to the incremental borrowing of funds during the first quarter of 2009 from our December 2008 line of credit and the increase in the interest rate on the December 2008 line of credit from 10% to 18% as of its maturity date on March 31, 2009. See “– GENERAL – Financing” and Footnote E in the Notes to the Consolidated Financial Statements. We have thus far been unable to repay either of our lines of credit due to our limited funds.

#### Three Months Ended September 30, 2010, Compared to Three Months Ended September 30, 2009

**Net Loss.** Our net loss for the quarter ended September 30, 2010, was \$68,622, compared to a net loss of \$83,167 during the quarter ended September 30, 2009, a decrease of 17.49%. The decrease in our net loss for the third quarter of 2010 over the third quarter of 2009 was due primarily to lower professional fees expense, offset in part by higher interest expense, mineral exploration costs expense and general and administrative expense during the third quarter of 2010 as compared to the same period in 2009.

**Mineral Exploration Costs Expense.** Mineral exploration costs expense for the three-month period ended September 30, 2010, was \$2,683, compared to \$1,235 for the three-month period ended September 30, 2009, an increase of \$1,448, or 117.25%. This over two-fold increase is attributable primarily to annual maintenance fees on our mining claims, which in the prior year period were included in our professional fees expense.

**Professional Fees Expense.** Professional fees expense for the third quarter of 2010 decreased over the same period in 2009 by \$25,602, or 46.21%, to \$29,799, compared to \$55,401 during the third quarter of 2009. The substantial decrease in professional fees expense for the third quarter of 2010 over the third quarter 2009 is primarily due to our recognition of certain ordinary legal and accounting expenses in the third quarter of 2009 for which the comparable 2010 expenses were recognized in the second quarter of 2010, the inclusion of our annual maintenance fees on our mining claims in professional fees expense in 2009, and lower geologist fees incurred during the third quarter of 2010

as compared to the third quarter of 2009.

Compensation and Management Fees Expense. Our compensation and management fees expense during the third quarter of 2010 decreased slightly from \$11,303 during the third quarter of 2009 to \$10,500 during the third quarter of 2010 due to the inclusion of payroll taxes in compensation and management expense during the third quarter of 2009, which are included in general and administrative costs expense for the current period. Compensation and management fees expense during the third quarters of 2009 and 2010 otherwise consisted of salary to our President.

**Depreciation and Amortization Expense.** Depreciation and amortization expense was essentially unchanged from the third quarter of 2009 to the third quarter of 2010.

**General and Administrative Costs Expense.** Our general and administrative costs increased by \$3,621, or 141.67%, to \$6,177 during the quarter ended September 30, 2010, compared to \$2,556 during the quarter ended September 30, 2009. The increase in general and administrative costs expense for the third quarter of 2010 over the same period in 2009 is primarily related to costs associated with our efforts to secure additional financing for our anticipated exploration and operating costs.

**Interest Income and Other Income.** We did not have any interest income or other income during the three-month period ended September 30, 2010, or during the same period in 2009.

**Interest Expense.** During the third quarter of 2010, we incurred interest expense of \$19,393 as a result of interest accruing on our two lines of credit obtained from Kilpatrick's Rose-Neath Funeral Homes, Crematorium and Cemeteries, Inc. in December 2007 and December 2008, respectively. The increase in our interest expense from \$12,603 for the third quarter of 2009 primarily reflects the increase in the interest rate on the December 2008 line of credit from 10% to 18% as of its maturity date on March 31, 2009. See “– GENERAL – Financing” and Footnote E in the Notes to the Consolidated Financial Statements.

#### Exploration Program

In 2008, through our consultants, including a geologist and a registered professional mining engineer, both of whom were “qualified persons” under NI 43-101, and an additional geologist, we developed a new exploration program for our Detrital Wash Property of testing geological samples for the existence of minerals and mapping the existing geology. Our consultants utilized the initial results of this program obtained in 2008, which indicated the presence of copper, molybdenum and silver mineralization, to further design the exploration program to evaluate the mineral potential of our Detrital Wash Property and the viability of extracting any mineral reserves discovered.

During 2008, we obtained historical records created by various mining companies from the 1960's through the 1980's in connection with substantial exploration conducted in the Northern Black Mountains, where our Detrital mining claims are located. Work completed by these companies included soil sampling, stream sampling, rock sampling and drilling, bouguer gravity surveys, and resistivity and IP (induced polarization) surveys. The historical soil, sediment and rock sampling data obtained by the Company indicated copper and molybdenum mineralization on the property in the form of projected and drilled areas of chalcocite mineralization. As part of our exploration program, our geologist and engineering consultants reproduced and verified under NI 43-101 industry standards the accuracy of much this historical data.

In the initial phase of this exploration program conducted in 2008, 252 assays were performed by Mountain States R&D International, Inc., an Arizona registered and licensed lab (“Mountain States”), on samples taken from our Detrital Wash claims. Results of these assays support the historical data indicating significant copper and molybdenum mineralization in the areas of our Detrital Wash claims.

Due to budget constraints, the assays performed in 2008 did not test for gold mineralization. However, the Detrital Wash area includes several former gold mines, and the historical data we obtained indicates mineralization of gold in the vicinity of our claims. In March 2009, we submitted over 200 additional samples collected during our initial sampling phase and several new samples to Skyline Assayers & Laboratories in Tucson, Arizona, an Arizona registered and licensed lab (“Skyline”), to be assayed for copper, molybdenum, and silver as well as gold

mineralization. The samples delivered to Skyline consisted of 91 new rock samples and 155 new soil samples, as well as 259 rock and soil pulps of samples previously analyzed at Mountain States.

The Skyline assay results showed anomalous gold, silver, copper and molybdenum mineralization in the areas tested, as well as other indicator and pathfinder elements for both precious and base metals deposits. The results indicated the presence of gold and silver mineralization along trends containing historically mined deposits. These assays also showed improved results in copper and molybdenum values from the Company's 2008 sampling.

Our consultants plotted, contoured and evaluated the Mountain States and Skyline assay results data, along with historical results consisting of soil and rock geochem data plotted by previous exploration companies working the same property, to determine appropriate drilling locations for further exploration. We also staked additional lode claims on areas of further interest as indicated by the March 2009 Skyline assay results.

After receiving the March 2009 Skyline assay values, we conducted follow-up soil, rock chip and channel sampling to test the extent and grade of any mineralization associated with the high value samples. In August 2009, we submitted samples collected from this follow-up program to Skyline to be analyzed with the same procedures as the previous Skyline assays. The results of these assays showed mineralization generally consistent with the results of our previous assays. Following these assays, we focused our efforts on preparations to conduct drilling work on the Detrital Wash Property.

During the first nine months of 2010, we have completed a limited phase of drilling on our Detrital Wash Property. We drilled 10 holes in various locations on our Detrital Wash Property where previous sampling had indicated evidence of mineralization. Samples were taken from the drill holes and nearby areas and submitted for assay at the Skyline lab in Tucson. We have conducted additional mapping of the geology in the Detrital Wash Property and nearby areas. We have also recorded three of our lode claims and staked four additional lode claims in the Detrital Wash Property. During the second quarter of 2010, we collected approximately 60 additional surface samples, which were assayed by ALS Chemex Labs in Reno, Nevada and submitted to our geologists for evaluation. Our consultants have evaluated the assay results and the mapping information in light of the historical information regarding the Detrital Wash area to assess the additional work needed to determine the commercial viability of our exploration program. We have worked with our consultants to develop a short-term exploration plan for the next phase of our exploration program based on the data we have collected. See “– GENERAL – Plan of Operation.”

During the third quarter of 2010, we determined not to renew 60 of our Detrital Wash claims, which we believe did not show evidence of sufficient potential for mineral deposits based on the assay and mapping data we have collected since 2008 when combined with the results of our drilling, mapping and assay work during the first quarter of 2010 on these claims. These claims expired on August 31, 2010. All of our other existing lode claims in the Detrital Wash Property have been renewed with the BLM until August 31, 2011. We believe further exploration work is needed to fully evaluate the mineral reserve potential and to compile sufficient data to attract a joint venture or other opportunity to develop any reserves that are determined to exist on our properties.

During the third quarter of 2010, other than continuing to assess results of our exploration work conducted in previous quarters and preparing plans for the next phase of our exploration program, we largely suspended our exploration work due to limited funds. Subsequent to September 30, 2010, we obtained additional funding for our next phase of exploration, and we have located several new lode claims based on our recent sampling work.

#### Plan of Operation

Based on the results of our initial drilling work and funding obtained in October 2010, we are preparing to begin implementing a new limited phase of sampling, mapping, drilling and additional geochemical work on our Detrital Wash Property over the coming months. Our plans for this phase of exploration work include further sampling and mapping to establish additional drilling targets, followed by drilling of the target areas and assays of the drilled samples. We may conduct follow-up surface sampling and mapping depending on our evaluation of the initial results and available funds. We also intend to record any unfiled claims that show significant potential for mineral reserves, and we may locate additional claims or release existing claims as warranted by the results of such exploration work and based on our financial resources.



Management's goal is to bring the data on the Detrital Wash Property to a sufficient level to attract a joint venture or other sale or lease opportunity with a larger resource entity or investor to provide additional capital and infrastructure to complete the exploration program and bring the property to the production stage should mineral reserves be established. We plan to consider any potential joint venture opportunities that may arise to fund any further exploration work needed toward the establishment of precious and base metal reserves in the Detrital Wash Property and assessment of the feasibility of extracting potential mineral deposits on these properties. We will also consider other available financing options as well as any opportunities that may arise to sell or lease our interest in our properties that we believe would be favorable to our shareholders.

We intend to continue to consider potential options to raise additional capital as needed to complete our planned exploration work, to undertake any necessary additional exploration work on the Detrital Wash Property and to continue to fund our ongoing operating costs, unless and until we can achieve revenues sufficient to maintain our operations. We cannot guarantee that we will be able to raise any necessary additional capital on terms favorable to us or at all. We also cannot assure, even if such financing is obtained, that mineral reserves will be determined to exist on our properties or that we will be able to successfully attract and consummate a joint venture to develop the property to production stage or any other opportunity to commercially exploit our properties. See “– GENERAL – Going Concern.” Our ability to establish and exploit any reserves of precious or base minerals found on our properties will depend, in part, on factors beyond our control, including technological capabilities in the mining industry, current economic conditions and the current market price of any minerals discovered.

We do not anticipate any purchase or sale of property, plant, or other significant equipment, and we do not expect any significant changes in the number of our employees. However, employees, consultants and expertise will be added to the Company as management deems necessary and when financing permits.

#### Financing

We do not have any revenues and continue to be dependent on debt and equity financing to meet our immediate cash needs. We continue to consider and pursue available means to fund our operations and our exploration activities, either by seeking additional capital through loans or private placements of our securities, or by entering into joint venture or similar arrangements with one or more other, more substantial companies.

Historically, certain of our directors have from time to time advanced funds to our Company for the payment of operating expenses. These advances have been repaid in cash and through the issuance of restricted shares of our common stock. During 2009, our Chairman of the Board paid certain corporate filing fees and annual maintenance fees on our mining claims on behalf of the Company in an aggregate amount of \$16,817. In November 2009, our Chairman advanced \$100,000 to the Company to be used as working capital. Our Chairman advanced \$50,000 to the Company in January 2010 and an additional \$33,183 in April 2010 to be used as working capital. We have agreed to reimburse the Chairman for these advanced funds. As of this Report, we have not made any reimbursement payments to the Chairman for the advanced funds.

The Company has in the past obtained debt financing through lines of credit obtained from Kilpatrick’s Rose-Neath Funeral Homes, Crematorium and Cemeteries, Inc. (“KRFH”). We currently have outstanding principal balances of \$500,000 and \$200,000 from two lines of credit obtained from KRFH in December 2007 and December 2008, respectively. These funds have been used to pay our operating and exploration expenses during 2008 and 2009, and no additional funds are available under these lines of credit. Effective as of May 7, 2010, we amended our corporate loan agreement and promissory note with KRFH for our December 2007 line of credit to extend the maturity date for two additional years to December 3, 2012. Under the amended terms, we are allowed to continue paying interest only on the outstanding balance until the extended maturity date. See Footnote E to the Financial Statements for more information regarding our lines of credit from KRFH.

Our Chairman of the Board, Ms. Virginia Shehee, may be deemed the beneficial owner of over 50% of the outstanding shares of KRFH due to the voting power she has obtained pursuant to a voting agreement. Due to the voting power she has obtained pursuant to a similar voting agreement, Ms. Shehee may also be deemed the beneficial owner of over 50% of the outstanding shares of Kilpatrick Life Insurance Company (“KLIC”), one of our major shareholders. Ms. Shehee serves as Chairman of the Board of KLIC and until July 1, 2008, served as its President and Chief Executive Officer. KLIC also employs as its Corporate Secretary Ms. Jacquelyn Wine. Ms. Wine is our Secretary, Treasurer/Chief Financial Officer and one of our directors.

We did not obtain any funds through debt financing or through sales of our equity securities during the nine months ended September 30, 2010.

On October 13, 2010, we obtained a loan of \$200,000 from Beaird Operating Companies, LLC (“Beaird”) carrying simple interest at the rate of 12% per annum. All unpaid principal and accrued interest is due on December 13, 2011 (the “Maturity Date”). Under the terms of the loan, any unpaid principal will increase by 1.5 times as of the Maturity Date and will continue to accrue simple interest at a rate of 12% per annum. No payments are required until the Maturity Date; however, we have the right to prepay any amounts due to Beaird at any time without penalty. The debt is secured by a 49% interest in the mineral rights of our mining claims in our Detrital Wash Property and in the revenues generated by or from such properties. At our election, we may convert the security interest to a priority security interest on 49% of our share of proceeds from any joint venture or licensing agreement with respect to the mining claims, subject to certain conditions. In the event we default, Beaird may institute legal action against us. In such event, Beaird would be entitled to its collection costs, including attorney fees not to exceed 20% of the amount sought to be collected.

In connection with the loan, we issued to Beaird warrants to purchase up to 20,000,000 shares of our common stock at an exercise price of \$0.01 per share payable in cash or by a reduction of the principal amount owed on the debt equal to the exercise price, or by a combination thereof. The warrants expire on the later of the second anniversary of the date of issuance or the date all principal due to Beaird is fully paid. In addition, we granted certain piggyback registration rights under which Beaird may register for resale shares held by Beaird if we propose to register shares of our common stock (or any security which is convertible into or exchangeable or exercisable for common stock) under the Securities Act of 1933 (the “Securities Act”). We have no present plans to pursue a registered public offering of our common stock.

We used the funds advanced by our Chairman to fund our operating and compliance costs during the first nine months of 2010. We have used a portion of the funds obtained from the Beaird loan to satisfy outstanding expenses from the first three quarters of 2010 and plan to use these funds to satisfy our current obligations for the remainder of 2010 and a portion of 2011. We do not have any revenues and continue to be dependent on debt and equity financing to meet our immediate cash needs, and we do not anticipate achieving any revenues through the remainder of 2010. We will continue to seek additional funds through debt or equity financing as needed to continue our operations and to service our debt obligations from the Beaird loan and our December 2007 and December 2008 lines of credit. We can provide no assurance that we will be able to achieve sufficient revenues or raise the funds necessary for the repayment of the lines of credit and for our continued operations on terms favorable to us or at all.

## LIQUIDITY

### Liquidity and Capital Resources

	Nine months ended Sep. 30,	
	2010	2009
Net cash used in operating activities	\$(127,908 )	\$ (171,732 )
Net cash provided by investing activities	—	—
Net cash provided by financing activities	82,933	166,625

### General

Overall, we had negative cash flows of \$44,975 for the nine months ended September 30, 2010, resulting from \$127,908 used in our operating activities and \$82,933 provided by our financing activities. No cash was provided by investing activities during the nine months ended September 30, 2010. For the nine months ended September 30, 2009, we had negative cash flows of \$5,107. The large negative difference in cash flows for the nine-month period ended September 30, 2010, versus the same period in 2009 reflects \$83,692 less cash provided by financing activities, offset in part by \$43,824 less cash used for operating activities, during the interim period in 2010 compared to the

respective amounts during the same period in 2009.

#### Cash Used in Our Operating Activities

For the nine-month period ended September 30, 2010, net cash used in our operating activities was \$127,908, a decrease of \$43,824 from the same period in 2009. The decrease in our cash used in operating activities primarily reflects the expense incurred in connection with issuance of stock options to our president in April 2010 and increases in our accrued interest and our accounts payable and accrued expenses in the first nine months of 2010. These changes were offset in part by the increase in our net loss for the interim period in 2010 over the interim period in 2009. The increase in our accounts payable and accrued expenses during 2010 mostly reflects unpaid legal and accounting compliance costs and unpaid salary payments and is largely attributable to our more limited operating funds in 2010 compared to the same period in 2009.

### Cash Provided by Our Financing Activities

Net cash provided by our financing activities of \$82,933 during the nine-month period ended September 30, 2010, was comprised of cash advances of \$50,000 and \$33,183 provided by our Chairman in January 2010 and April 2010, respectively, less a \$250 refund to a shareholder for an overpayment in connection with the exercise of stock warrants. This reflects a decrease of \$83,692 as compared to net cash provided by financing activities during the nine months ended September 30, 2009. Net cash provided by financing activities during the first nine months of 2009 resulted from \$170,000 in funds borrowed under a line of credit obtained by the Company in December 2008 less \$3,375 in shareholder deposits refunded to shareholders for overpayments in connection with the exercise of stock warrants.

### Internal Sources of Liquidity

For the nine-month period ended September 30, 2010, the funds generated from our operations were insufficient to fund our daily operations. We can provide no assurance that funds from our operations will meet the requirements of our daily operations in the future. Unless and until funds from our operations are sufficient to meet our operating requirements, we will continue to need to seek other sources of financing to maintain liquidity.

### External Sources of Liquidity

Because we have been unable to generate funds from operations sufficient to fund our daily operations, we must rely on external sources of liquidity. We continue to consider and pursue potential financing options to secure funds to continue and, where possible, grow our business operations. Our management will review any financing options at its disposal, and will judge each potential source of funds on its individual merits.

We received advances of funds from our Chairman of the Board totaling \$116,817 during 2009 and an additional \$50,000 in January 2010 and \$33,183 in April 2010. See “– GENERAL – Financing.” We have used these funds to pay operating expenses for the fourth quarter of 2009 and to fund our exploration work and operating expenses during the first nine months of 2010.

We obtained the loan of \$200,000 from Beaird on October 13, 2010. See “– GENERAL – Financing.” We have used a portion of these funds to pay certain outstanding operating expenses for the the first nine months of 2010. We plan to use the bulk of the loan proceeds to fund our exploration work and operating expenses during the remainder of 2010 and a portion of 2011.

Because we presently do not have sufficient cash reserves or revenues to fund our current operating and compliance costs or to fund our repayment of our debt obligations, we continue to consider options for additional debt or equity financing unless and until we can generate revenues from our mineral properties. We can provide no assurance that we will be able to generate sufficient revenues to sustain our operations or raise additional funds on terms favorable to us or at all. See “– GENERAL – Going Concern.”

### Inflation

Management believes that inflation has not had a material effect on our results of operations in the third quarter of 2010, and does not expect that it will in the fourth quarter of 2010, except to the extent higher fuel and energy prices could materially and adversely impact the Company by increasing costs for our exploration program and any travel related expenses.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures.

Our management evaluated, with the participation of our President and our Treasurer/Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, September 30, 2010. Based on this evaluation, our President and our Treasurer/Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report were effective in timely alerting management to material information relating to us and required to be included in our periodic filings with the SEC.

Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our periodic reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Internal Control over Financial Reporting

There was no change in our internal control that occurred during the three-month period ended September 30, 2010, that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we may be involved in legal proceedings relating to claims arising out of operations in the normal course of business, as well as claims arising from our status as an issuer of securities and/or a publicly reporting company. At September 30, 2010, we know of no current or threatened legal proceedings involving us or our properties reportable under this Item 1.

ITEM 1A. RISK FACTORS

The business of mineral exploration is inherently speculative and involves a number of general risks which could materially adversely affect our results of operation and financial condition, including among others, our ability to raise necessary capital, the rarity of commercial mineral deposits, environmental and other laws and regulations, physical dangers to personnel associated with exploration activity, and political events. As of September 30, 2010, there were no material changes from the risk factors set forth in Part I, Item 1A, "Risk Factors," of our Form 10-K for the year ended December 31, 2009. See the discussion of our risk factors in the Form 10-K, as filed with the SEC. The risks described are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or



operating results.

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

We did not make any unregistered sales of our equity securities during the quarter ended September 30, 2010. On October 13, 2010, in connection with the \$200,000 loan from Beard, we issued warrants to Beard to purchase up to 20,000,000 shares of our common stock at an exercise price of \$0.01 per share payable in cash or by a reduction of the principal amount owed on the debt equal to the exercise price, or by a combination thereof. We believe the issuance of these securities was exempt from registration under Rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act. The warrants expire on the later of the second anniversary of the date of issuance or the date all principal due to Beard is fully paid. The warrants are not transferable. In addition, we granted certain piggyback registration rights under which Beard may register for resale shares held by Beard if we propose to register shares of our common stock (or any security which is convertible into or exchangeable or exercisable for common stock) under the Securities Act.

ITEM 3.           DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4.           (RESERVED)

ITEM 5.           OTHER INFORMATION

None.

ITEM 6.           EXHIBITS

Exhibit Index

Exhibit

No.	Description
10.1	Corporate Promissory Note, dated October 13, 2010, and issued by International Star, Inc. to Beaird Operating Companies, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 19, 2010)
10.2	Security Agreement, entered into on October 13, 2010, by Beaird Operating Companies, LLC and International Star, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 19, 2010)
10.3	Stock Purchase Warrant Agreement, entered into on October 13, 2010, by and between International Star, Inc. and Beaird Operating Companies, LLC (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 19, 2010)
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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\* Filed herewith

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.

INTERNATIONAL STAR, INC.

Date: November 19, 2010

By: /s/ Sterling M. Redfern  
Sterling M. Redfern  
President and Director

Date: November 19, 2010

By: /s/ Jacquelyn B. Wine  
Jacquelyn B. Wine  
Secretary, Treasurer/Chief  
Financial Officer and Director