

INTERNATIONAL STAR INC
Form 10QSB
November 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

R QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

£ TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 000-28861

INTERNATIONAL STAR, INC.

(Exact name of small business as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

86-0876846

(IRS Employer Identification No.)

2405 Ping Drive

Henderson, NV 89074

(Address of principal executive offices)

(903) 563-3030

(Issuer's telephone number)

(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 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 **R** No *

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

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Check whether the registrant filed all documents and reports required to be file by Section 12, 13, or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by the court. Yes No

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:

The Company had 264,082,725 shares of common stock outstanding at November 06, 2006.

Transitional Small Business Disclosure Format (Check one): Yes No

INTERNATIONAL STAR, INC.
Form 10-QSB
For The Quarterly Period Ended September 30, 2006

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PART 1

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-QSB. 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, 2005. 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, 2006 and its results of operations and its cash flows for the three and six month periods ended September 30, 2006.

**INTERNATIONAL STAR, INC.
AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)**

**CONSOLIDATED BALANCE SHEETS
(UNAUDITED)**

ASSETS

| | September 30, 2006 | December 31, 2005 |
|--|-----------------------|----------------------|
| Current Assets: | | |
| Cash | \$ 1,765 | \$ 205,220 |
| Total Current Assets | 1,765 | \$ 205,220 |
| Fixed Assets (Net of Depreciation) | | |
| | 29,414 | 31,964 |
| Total Assets | \$ 31,179 | \$ 237,184 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current Liabilities: | | |
| Accounts payable and accrued interest | \$ 123,764 | \$ 93,067 |
| Note Payable | 250,000 | 250,000 |
| Total Current Liabilities | 373,764 | 343,067 |
| Stockholders' Equity (Deficit): | | |
| Preferred stock, undesignated par value; authorized 20,000,000 shares, no shares issued and outstanding Common Stock, \$.001 par value; authorized 780,000,000 shares; issued and outstanding 236,559,271 and 212,987,443 at September 30, 2006 and December 31, 2005, respectively. | \$ 236,559 | \$ 212,987 |
| Paid-In Capital | 3,900,587 | 3,524,059 |
| Accumulated Deficit | (4,479,731) | (3,842,929) |
| Total Stockholders' Equity (Deficit) | (342,585) | (105,883) |
| Total Liabilities and Stockholders' Equity | \$ 31,179 | \$ 237,184 |

See accompanying notes to financial statements.

**INTERNATIONAL STAR, INC.
AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)**

**CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)**

| | Three Months Ended September 30, 2006 | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2006 | Nine Months Ended September 30, 2005 | From January 1, 2004 (Date of inception of exploration stage) to September 30, 2006 |
|---|--|--|---|---|--|
| Revenue: | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total Revenue | - | - | - | - | - |
| Expenses: | | | | | |
| Mineral exploration costs | 37,282 | 48,804 | 52,756 | 323,516 | 531,541 |
| Professional fees | 10,992 | 2,662 | 48,402 | 18,735 | 160,650 |
| Compensation & management fees | 70,498 | 88,793 | 308,511 | 305,369 | 1,226,065 |
| Depreciation & amortization | 850 | 1,614 | 2,550 | 4,842 | 7,023 |
| General & administrative | 19,388 | 23,785 | 213,333 | 96,244 | 349,322 |
| Total Expenses | (139,010) | (165,658) | (625,552) | (748,706) | (2,274,601) |
| Net (loss) from operations | \$ (139,010) | \$ (165,658) | \$ (625,552) | \$ (748,706) | \$ (2,274,601) |
| Other Income (Expense): | | | | | |
| Interest expense | (3,750) | (3,750) | (11,250) | (11,250) | (51,777) |
| Loss on divestiture of subsidiary | - | - | - | - | (99,472) |
| Total Other Income (Expense) | (3,750) | (3,750) | (11,250) | (11,250) | (151,249) |
| Net (loss) | (142,760) | (169,408) | (636,802) | (759,956) | (2,425,850) |
| Weighted Average Shares Common Stock Outstanding | 234,318,438 | 204,681,548 | 227,246,312 | 197,618,615 | |
| Net Loss Per Common Share (Basic and Fully Dilutive) | (0.00) | (0.00) | (0.00) | (0.00) | |

See accompanying notes to financial statements.

**INTERNATIONAL STAR, INC.
AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)**

**STATEMENTS OF CASH FLOW
(UNAUDITED)**

| | Three Months Ended September 30, 2006 | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2006 | Nine Months Ended September 30, 2006 | From January 1, 2004 (date of inception of exploration stage) to September 30, 2006 |
|--|---|---|---|---|--|
| Cash Flows Used in Operating Activities: | | | | | |
| Net Loss | \$ (142,760) | \$ (169,408) | \$ (636,802) | \$ (759,956) | \$ (2,425,850) |
| Adjustments to reconcile net (loss) to net cash provided by operating activities: | | | | | |
| Depreciation & Amortization | 850 | 1,614 | 2,550 | 4,842 | 7,023 |
| Loss in divestiture of subsidiary | - | - | - | - | 99,472 |
| Common stock issued for services | - | - | 133,500 | - | 207,500 |
| Net Cash used in Operations | (141,910) | (167,794) | (500,752) | (755,114) | (2,111,855) |
| Changes to Operating Assets and Liabilities: | | | | | |
| (Increase) decrease in Accounts Receivable and Prepaids | - | - | - | 54,000 | 20,955 |
| (Increase) decrease in inventories | - | - | - | - | 63,812 |
| (Increase) decrease in other assets | - | - | - | - | 92,874 |
| (Decrease) increase in accounts payables and accrued interest | 20,808 | 15,541 | 30,697 | 48,154 | 47,854 |
| (Decrease) increase in accrued liability | - | 16,239 | - | 16,239 | (189,092) |
| Cash Flows Used in Operating Activities | (121,102) | (136,014) | (470,055) | (636,721) | (2,075,452) |
| Cash Flows from Investing Activities: | | | | | |
| Purchase of fixed assets | - | - | - | - | (29,355) |
| Cash Flows from Investing Activities | - | - | - | - | (29,355) |
| Cash Flows from Financing Activities: | | | | | |
| Proceeds from note payable | - | - | - | - | 250,000 |
| Proceeds from sale of common stock | 93,100 | 176,000 | 266,600 | 506,921 | 1,492,426 |
| Cash Flows from Financing Activities | 93,100 | 176,000 | 266,600 | 506,921 | 1,742,426 |

| | | | | | |
|--|-----------------|------------------|------------------|------------------|------------------|
| Net Increase (Decrease) in Cash | (28,002) | 39,986 | (203,455) | (129,800) | (362,381) |
| Cash at Beginning of Period | 29,767 | 30,480 | 205,220 | 200,266 | 364,146 |
| Cash at End of Period | \$ 1,765 | \$ 70,466 | \$ 1,765 | \$ 70,466 | \$ 1,765 |

See accompanying notes to financial statements.

**INTERNATIONAL STAR, INC.
AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)**

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

A. BASIS OF PRESENTATION

The Interim financial statements of International Star, Inc. and Subsidiaries (the Company) for the nine and three months ended September 30, 2006 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, 2006 and the results of operations and cash flows for the nine and three months ended September 30, 2006.

The results of operations for the nine and three months ended September 30, 2006 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) for the nine and three months ended September 30, 2006.

(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 has not adopted a policy regarding the payment of dividends.

(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.

(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 actively outstanding in accordance with SFAS NO. 128 "Earnings Per Share." 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 antidilutive and then only the basic per share amounts are shown in the report.

(6) Comprehensive Income

The Company adopted SFAS No. 130, "Reporting Comprehensive Income", which requires inclusion of 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 has elected to follow Accounting Principles Board Opinion No.25 (APB 25) and related interpretations in accounting for its employee stock options. Under APB25, when the exercise price of employee stock options is equal to the estimated market price of the stock on the date of grant, no compensation expense is recorded. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (SFAS 123) with respect to employee stock options.

(8) Income Taxes

The Company has adopted SFAS No. 109 "Accounting for 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 losses have been fully reserved and no net tax benefit has been recorded in these financial statements.

(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, tax credit recoverable, reclamation bond, accounts payable and accrued liabilities, amount due to a director and loan payable.

(10) Recent Accounting Pronouncements

The Company does not expect that the adoption of other recent account 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

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 International Star, Inc. (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 share 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

On February 18, 2005, the Company adopted a plan for a 3:1 forward split of its common stock. As a result of this plan, the shareholders of record of the Company as of February 22, 2005 received three shares of the Company's common stock in exchange for one share. The Company increased its authorized common shares to 780,000,000 at \$0.001 par value. The Company also authorized 20,000,000 shares of undesignated preferred stock. The weighted average shares outstanding and net loss per common share have been compiled as if the forward split had occurred at inception of the Company. The total outstanding shares of common stock prior to the forward split were 64,428,741 and after the 3:1 forward split the total number of shares outstanding were 193,286,223.

E.

SUBSEQUENT EVENT

On October 30, 2006, Kilpatrick Life Insurance Company converted its note payable from the Company in the amount of \$250,000 together with accrued interest of \$28,875 into 18,591,682 shares of the company's common stock.

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

GENERAL

The following presentation of Management's Discussion and Analysis of Financial Condition has been prepared by internal management and should be read in conjunction with the Financial Statements and notes thereto included in Item 1 of our Quarterly Report on Form 10-QSB for the three and nine month periods ended September 30, 2006. Except for the historical information contained herein, the discussion in this report contains certain forward-looking statements that involve risks and uncertainties, such as statements of our business plans, objectives, expectations and intentions as of the date of this filing. The cautionary statements about reliance on forward-looking statements made earlier in this document should be given serious consideration with respect to all forward-looking statements wherever they appear in this report, notwithstanding that the "safe harbor" protections available to some publicly reporting companies under applicable federal securities law do not apply to us as an issuer of penny stocks. Our actual results could differ materially from those discussed here.

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 metals mineral properties. Since 1998, we have examined various mineral properties prospective for precious metals and minerals and have acquired interests in those we believe may contain precious metals and minerals. Our properties are located in Arizona. 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 property is economically and legally feasible. Therefore, at present we have no reserves and no income from mineral production

The business of mineral exploration is very speculative because there is generally no way to recover any of the funds expended on exploration unless the company establishes the existence of mineable reserves and then exploits those reserves by either commencing mining operations, selling or leasing its interest in the property, or entering into a joint venture with a larger resource company that can develop the property to the production stage. Unless we can establish and exploit reserves before our funds are exhausted, we will have to discontinue operations, which could make our stock valueless.

Reserves, by definition, contain mineral deposits in a quantity and in a form from which the target minerals may be economically and legally extracted or produced. We have not established that such reserves exist on our properties and unless and until we do so we will not have any income from our mineral operations.

Our directors and executive officers lack significant experience or technical training in exploring for precious metal deposits and developing mines. Accordingly, our management may not be fully aware of many of the specific requirements related to working within this industry. Their decisions and choices may not take into account standard engineering or managerial approaches such as mineral exploration companies commonly use. Consequently, our operations, earnings, and ultimate financial success could suffer irreparable harm due to our management's lack of experience in the mining industry. We plan to align our Company with reputable, knowledgeable experts in the mining industry to overcome this lack of experience and expertise.

Any changes in government policy may result in changes to laws affecting ownership of assets, land tenure, mining policies, taxation, environmental regulations, labor relations, or other factors relating to our exploration activities. Such changes could cause us to incur significant unforeseen expenses of compliance or even require us to suspend our activities altogether.

Our directors and executive officers own a significant amount of our voting capital common stock, and accordingly, exert considerable influence over us. As of September 30, 2006, our directors and executive officers beneficially owned common stock and securities convertible into our common stock which, upon exercise, would equal to approximately 32% of the voting power. As a result, these stockholders are potentially able to decide all matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions. This concentration of ownership could also delay or prevent a change in control that may be favored by other stockholders.

OUR PROPERTIES

We currently hold interests in two properties which we believe show potential for mineral development. Both properties are unpatented mining claims located on federal public land and managed by the United States Bureau of Land Management ("BLM").

Unpatented claims are "located" or "staked" by individuals or companies on federal public land. Each placer claim covers 20 to 160 acres; each lode claim covers 20 acres. We are obligated to pay a maintenance fee of \$100 per claim per year to the BLM or file an Affidavit of Assessment Work with the BLM showing labor and improvements of at least \$100 for each claim yearly.

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 such fees or make the required filings 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.

There are uncertainties as to title matters in the mining industry. We believe that we have good title to our properties; however, defects in such title could have a material adverse effect on us. We have investigated our rights to explore, exploit and develop our various properties in manners consistent with industry practice and, to the best of our knowledge, those rights are in good standing. However, we cannot assure that the title to our properties will not be challenged or impugned by third parties or governmental agencies. In addition, there can be no assurance that the properties in which we have an interest are not subject to prior unregistered agreements; transfers or claims and title may be affected by undetected defects. Any such defects could cause us to lose our rights to the property or to incur substantial expense in defending our rights.

Detrital Wash, Mohave County, Arizona Property

On March 3, 1998, we entered into a mineral lease with James R. Ardoin for the Detrital Wash mineral claims located one mile east of mile marker 22 on Hwy 93, Mohave County, Arizona. The lease does not require any minimum payments, and charges a royalty of 2% of net smelter returns (NSR). The term of the lease is for 20 years with an option to renew for additional, successive 20-year terms. In July 2004, we reached an agreement in principle with the holders of 131 placer association claims covering approximately 20,000 acres adjacent to and surrounding the original Detrital Wash Property. The agreement will grant us exclusive exploration rights on the claims, and first right of refusal for exclusive development rights in exchange for a 0.25% net smelter return payable to the claimholders. The agreement will require the company to expend a minimum of \$125,000 on exploration during a three-year period.

Currently we are attempting to raise additional capital to continue a staged exploration program on the Detrital Wash Property. As part of this effort, we formed Star-Resolve Detrital Wash, LLC as part of a joint venture with Resolve Capital Funding Corporation, Inc. ("Resolve") to engage in the development and commercial exploitation of the Detrital Wash Property. Each of Resolve and our Company will have a 50% membership interest in Star-Resolve Detrital Wash, LLC. Under this joint venture, Resolve has committed to use its best efforts to manage Star-Resolve Detrital Wash, LLC and to provide us access to its industry related contracts and its expertise in the commercial exploitation of mineral rights. Resolve will be the exclusive managing member of Star-Resolve Detrital Wash, LLC.

Wikieup, Arizona Property

In March 2001, we purchased from Gold Standard Mines Inc. 51 lode mining claims located in the Wikieup mining district, Mohave County, Arizona (the "Wikieup Property"). Consideration for the acquisition was 1,000,000 restricted common shares valued at \$400,000 as of the date of the agreement. In connection with the acquisition of the Wikieup Property and for no additional consideration, we were assigned all right, title and interest in certain proprietary gold, silver and/or platinum metal recovery formulae for the processing of ore in and about the Wikieup Property. As of the date of this filing, we have not had the formulae and processing techniques independently verified.

The Wikieup Property at present consists of approximately 840 acres (42 lode claims) of mountainous terrain and is accessible by paved and dirt roads west of Wikieup, Arizona off U.S. Highway 93. The property is located in Section 36, Township 16N, Range 14W in the Holapa Mountain Range. There is nearby access to electricity and water.

We have processed a limited number of "spot samples" of stockpiled screened material from a claim immediately adjacent to our Wikieup Property and found precious metals to exist in the material, although our sampling did not permit a reliable quantitative evaluation as we could not be certain of the degree of pre-treatment and concentration the material had undergone. Nevertheless, the spot samples confirmed our belief, based on the available literature, that the property shows promise as an exploration target. However, the mountainous terrain and complex nature of the geological makeup of the Wikieup Property would likely make it much more costly to explore and develop than the Detrital Wash Property. As a result, we have focused our efforts and available resources on the continued exploration of the Detrital Wash Property.

Going Concern

We have incurred substantial operating and net losses, as well as negative operating cash flow, since our inception. Accordingly, we continue to have significant stockholder deficits and working capital deficits, as further explained in our Annual Report on Form 10KSB for the year ended December 31, 2005. 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, 2005 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 and our management has developed a strategy which it believes will accomplish this objective through additional equity funding, long term financing, and payment of our expenses by our officers, if needed, which will enable us to operate for the coming year.

Plan of Operation

Over the next twelve months, we intend to focus on obtaining financing necessary for further exploration on the Detrital Wash Property to assess the commercial viability of mineral extraction from deposits on the Detrital Wash Property and the establishment of a precious metal reserve. Given our limited resources and our ability to obtain financing, we intend to concentrate our efforts and our available finances on the continued exploration of the Detrital Wash Property. At present, our Management has no intention of continuing the exploration of the Wikieup Property, although should financing become available with respect to the Wikieup Property, our Management may consider further mineral exploration of the Wikieup Property.

Due to our limited financial resources, 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.

Financing

We have no credit lines or other sources of cash. We believe our current cash is sufficient to sustain our administrative overhead over the next twelve months, and to continue some exploration operations on our Detrital Wash Property. We will continue to pursue means to expand our exploration activities, either by seeking additional capital through loans or private placements of our securities, or possibly entering joint venture arrangements with one or more other, more substantial companies, such as the joint venture with Resolve Capital Funding Corporation, LLC for the formation of Star-Resolve Detrital Wash, LLC, which will allow us access to Resolve's industry related contracts and

leverage off of Resolve's expertise in commercial exploitation of mineral rights. If we raise capital by selling our equity stock, the proportionate ownership of existing shareholders will be diluted.

During our fiscal year ended December 31, 2005, we secured additional funding through the private placement of our restricted common stock shares at prices ranging from \$0.02 to \$0.15 per share. In the aggregate, we sold 18,801,125 restricted common stock shares during our fiscal year 2005 for a net purchase price of \$656,828.04. During the nine month period ended September 30, 2006, we secured additional funding through the private placement of our restricted common stock shares at prices ranging from \$0.01 to \$0.015 per share. In the aggregate, we sold 15,274,167 restricted common stock shares for a net purchase price of \$188,500. During the same period, existing outstanding warrants were exercised for restricted common stock shares at a price ranging from \$0.01 to \$0.031 per share. In the aggregate, we exercised 4,567,661 restricted common stock shares for a net exercise price of \$78,100. We believe these issuances were exempt from the registration requirements pursuant to Regulation D or Section 4(2) of the Securities Act. (See: "Recent Sales of Unregistered Securities").

In addition, 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. No payments were due to the Company directors for these advances at September 30, 2006. During the nine month period ended September 30, 2006, our Directors did not advance any funds to our Company.

LIQUIDITY

Liquidity and Capital Resources

| | For the Nine Months Ended September 30, 2006 | For the Nine Months Ended September 30, 2005 |
|---|--|--|
| Net cash Used in Operating Activities | \$ (470,055) | \$ (636,721) |
| Net Cash Used in Investing Activities | \$ 0 | \$ 0 |
| Net Cash Provided by Financing Activities | \$ 176,000 | \$ 506,921 |

General

Overall, we had a net increase in cash of 39,986 for the nine months ended September 30, 2006, resulting from \$136,014 used in our operating activities and \$176,000 provided by our financing activities.

Cash Used in Our Operating Activities

For the nine month period ended September 30, 2006, net cash used in our operating activities of \$470,055 was due primarily to general business, mining, and compensation expenses.

Cash Provided By Our Financing Activities

For the nine month period ended September 30, 2006, net cash provided by our financing activities was attributed to the sale of our common stock resulting in proceeds of \$266,600.

Internal Sources of Liquidity

For the nine month period ended September 30, 2006, the funds generated from our operations were insufficient to fund our daily operations. There is no assurance that funds from our operations will meet the requirements of our daily operations in the future. In the event that funds from our operations are insufficient to meet our operating requirements, we will need to seek other sources of financing to maintain liquidity.

External Sources of Liquidity

We actively pursue all potential financing options as we look to secure additional funds to both stabilize and grow our business operations. Our management will review any financing options at their disposal, and will judge each potential source of funds on its individual merits. There can be no assurance that we will be able to secure additional funds from debt or equity financing, as and when we need to, or if we can, that the terms of such financing will be favorable to us or our existing stockholders.

On October 28, 2003, we approved the acceptance of a Subscription Agreement and Loan Agreement between us and Kilpatrick Life Insurance Company. Under the terms of these agreements, Kilpatrick Life Insurance Company loaned to us \$250,000 pursuant to a promissory note, carrying an interest rate of 6% per annum, with interest payable in quarterly installments with the first quarterly interest payment due on April 28, 2004. This note is due and payable in full on October 28, 2006, and is secured by a mortgage of a 25% mineral interest in our 1,280 acre Detrital Wash Mining Claims in Mohave County, Arizona. Kilpatrick Life Insurance Company has waived payment of all interest due until October 28, 2006. Kilpatrick Life Insurance Company also purchased 7,663,500 shares of the Company's common stock at a value of \$0.03 1/3 for a total purchase price of \$250,000. At September 30, 2006, the outstanding balance due under this note was \$28,875. On October 30, 2006, Kilpatrick Life Insurance Company converted the outstanding balance under this note in the amount of \$250,000 together with accrued interest in the amount of \$28,875 into 18,591,682 shares of our common stock at \$0.015 per share.

Inflation

Management believes that inflation has not had a material effect on our results of operations, and does not expect that it will in fiscal year 2006, except that rising oil and gas prices may materially and adversely impact the economy generally.

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 Report, as well as in our other reports filed with the Securities and Exchange Commission. Important factors 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 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.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

ITEM 3. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive and 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-QSB, September 30, 2006. Based on this evaluation, our Chief Executive and Financial Officer has concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act) are ineffective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Specifically, we have identified a material weakness relating to our lack of competent financial management personnel with appropriate accounting knowledge and training and our financial inability to retain such financial management personnel during the nine month period ended September 30, 2006. We continue to seek the capital necessary to hire additional personnel to address this weakness; however, as of the date of this Amendment, we have not been able to do so. Any plan to address the above-identified material weakness will necessarily depend on our ability to obtain additional funding to hire and train additional personnel with the appropriate accounting knowledge, expertise and experience.

(b) Changes in Internal Control over Financial Reporting

There was no change in the our internal controls that occurred during the three month period ended September 30, 2006, that has materially affected, or is reasonably likely to affect, the Company's internal controls over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we are 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, 2006, we know of no current or threatened legal proceedings involving us or our properties reportable under this Item 1 Legal Proceedings.

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

On July 31, 2006, we issued 235,000 shares of our common stock for \$2,350 pursuant to the exercise of warrants with an exercise price of \$0.10 per share. This warrant holder was an accredited investor when he acquired the right to receive these shares and warrants and we believe the issuances of these securities are exempt under Section 4(2) of the Securities Act and Regulation D.

In August of 2006, we issued an aggregate of 2,487,500 shares of our common stock for \$24,875 pursuant to the exercise of warrants with an exercise price of \$0.10 per share. These warrant holders were accredited investors when they acquired the right to receive these shares and warrants and we believe the issuances of these securities are exempt under Section 4(2) of the Securities Act and Regulation D.

In August of 2006, we also sold 2,000,000 shares of our common stock to accredited investors at \$0.015 per share for an aggregate total of \$30,000. We believe the issuances of these securities are exempt under Section 4(2) of the Securities Act and Regulation D.

On September 29, 2006, we sold 500,000 shares of our common stock to an accredited investor at \$0.01 per share for a total of \$5,000. We believe the issuances of these securities are exempt under Section 4(2) of the Securities Act and Regulation D.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

No matters were submitted to the vote of our security holders, whether through solicitation or proxies or otherwise, during the three month period ended September 30, 2006.

ITEM 5. OTHER INFORMATION

On November 3, 2006, our Board of Directors appointed Robert M. Glover as a director of our company. Mr. Glover has been assisting our Company as a business consultant since April 2005. For the past 30 years, Mr. Glover has been the President of Glover Enterprises, a business consulting firm and the President of Glover Security Services, a company specializing in personal protection services.

During the past two years, we have not engaged in any transactions and are not engaged in any proposed transactions to which we are a party and that Mr. Glover had or is to have a direct or indirect material interest.

ITEM 6. EXHIBITS

| Exhibit No. | Description |
|-------------|--|
| 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. (Filed herewith) |
| 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. (Filed herewith) |
| 32.1 | Certification of Chief Executive Officer pursuant to pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith) |
| 32.2 | Certification of Chief Financial Officer pursuant to pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (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.

Dated: November 14, 2006

/s/ Denny Cashatt

President and Chief Executive Officer
(PRINCIPAL EXECUTIVE OFFICER)

Dated: November 14, 2006

/s/ Dottie Wommack

Acting Chief Financial Officer
(PRINCIPAL ACCOUNTING OFFICER)