

INTERNATIONAL STAR INC  
Form 10-Q  
May 24, 2010

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 March 31, 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	86-0876846
_____	_____
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1818 Marshall Street, Shreveport, LA	71101
_____	_____
(Address of principal executive offices)	(Zip Code)
	(318) 464-8687

\_\_\_\_\_  
(Registrant's telephone number, including area code)

Not Applicable

\_\_\_\_\_  
(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

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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 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 May 10, 2009, 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 March 31, 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 March 31, 2010, and its results of operations and its cash flows for the three-month period ended March 31, 2010.

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

	(Unaudited)	(Audited)
ASSETS	March 31, 2010	December 31, 2009
<b>Current Assets:</b>		
Cash	\$6,131	\$48,588
Prepaid expenses	--	--
<b>Total Current Assets</b>	<b>6,131</b>	<b>48,588</b>
<b>Property and Equipment</b>		
– net of accumulated depreciation of \$1,205 at March 31, 2010 and \$1,133 at December 31, 2009	379	451
<b>Total Assets</b>	<b>\$6,510</b>	<b>\$49,039</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$317,507	\$334,995
Accrued expenses	16,261	23,687
Accrued interest on note payable – related party	92,669	79,463
Note payable – related party	200,000	200,000
Shareholder deposits	--	250
Advances from shareholder	166,817	116,817
<b>Total Current Liabilities</b>	<b>793,254</b>	<b>755,212</b>
<b>Long Term Liabilities:</b>		
Long term note payable – related party	500,000	500,000
<b>Total Long Term Liabilities</b>	<b>500,000</b>	<b>500,000</b>
<b>Total Liabilities</b>	<b>1,293,254</b>	<b>1,255,212</b>
<b>Stockholders' Deficiency:</b>		
<b>Preferred Stock</b>		
20,000,000 shares authorized,		
Undesignated par value – none issued	--	--
<b>Common Stock</b>		
780,000,000 shares authorized, at \$.001 par value;		
282,012,274 and 282,012,274 shares issued and outstanding		
at March 31, 2010 and December 31, 2009, respectively	282,012	282,012
Capital in excess of par value	4,431,009	4,431,009
Deficit accumulated during the exploration stage	(5,999,765 )	(5,919,194 )
<b>Total Stockholders' Deficiency</b>	<b>(1,286,744 )</b>	<b>(1,206,173 )</b>

Total Liabilities and Stockholders' Deficiency	\$6,510	\$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 March 31,		January 1, 2004 (date of inception of exploration stage) to March 31, 2010
	2010	2009	
<b>Revenue:</b>			
Total Revenue	\$--	\$--	\$--
<b>Expenses:</b>			
Mineral exploration costs	18,631	39,929	927,418
Professional fees	30,098	19,604	769,233
Compensation & management fees	10,500	19,817	1,467,201
Depreciation & amortization	72	71	15,029
General & administrative	7,736	15,773	499,426
Total Operating Expenses	67,037	95,194	3,678,307
Net (Loss) from Operations	\$(67,037 )	\$(95,194 )	\$(3,678,307 )
<b>Other Income and Expenses</b>			
Interest income	--	--	2,939
Other income	--	--	3,535
Interest expense	(13,207 )	(8,088 )	(153,672 )
Other expense	(327 )	(50 )	(377 )
Loss on disposal of assets	--	(7,902 )	(20,531 )
Loss on divestiture of subsidiary	--	--	(99,472 )
Total Other Income and Expenses	(13,534 )	(16,040 )	(267,578 )
Net (Loss)	\$(80,571 )	\$(111,234 )	\$(3,945,885 )
<b>Weighted Average Shares</b>			
Common Stock Outstanding (Basic and diluted)	282,012,274	279,262,274	
<b>Net Loss Per Common Share</b>			
(Basic and diluted)	\$(0.00 )	\$(0.00 )	

See the accompanying notes to the consolidated financial statements.



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

	Three Months Ended March 31,		January 1, 2004 (date of inception of exploration stage) to March 31, 2010
	2010	2009	
<b>Cash flows from operating activities:</b>			
Net (loss)	\$(80,571 )	\$(111,234 )	\$(3,945,885 )
<b>Adjustments to reconcile net loss to cash used in operating activities:</b>			
Depreciation & amortization	72	71	15,030
Loss on disposal of assets	--	8,402	20,531
Loss on divestiture of subsidiary	--	--	99,472
Common stock issued for services	--	--	211,500
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable and prepaid expenses	--	4,881	79,795
Inventories	--	--	63,812
Other assets	--	--	95,474
Accounts payables and accrued expenses	(24,914 )	(20,230 )	303,599
Accrued interest on related party notes	13,206	--	74,270
Shareholder deposits	(250 )	(6,750 )	--
Net cash used in operating activities	(92,457 )	(124,860 )	(2,982,402 )
<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
Proceeds from advances from shareholder	50,000	--	166,817
Proceeds from notes payable – related party	--	170,000	725,000
Proceeds from sale of common stock	--	3,375	1,782,426
Net cash provided by financing activities	50,000	173,375	2,653,243
Net increase (decrease) in cash and cash equivalents	(42,457 )	48,515	(358,015 )
Cash and cash equivalents, beginning of period	48,588	8,889	364,146

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Cash and cash equivalents, end of period	\$6,131	\$57,404	\$6,131
Supplemental non-cash financing activities:			
Common stock issued for deposits	\$0	0	\$3,750

See the accompanying notes to the consolidated financial statements.

INTERNATIONAL STAR, INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

A. BASIS OF PRESENTATION

The interim consolidated financial statements of International Star, Inc. and subsidiaries (the “Company”) for the three months ended March 31, 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 March 31, 2010, and the results of its operations and cash flows for the three months ended March 31, 2010.

The results of operations for the three months ended March 31, 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 quarters ended March 31, 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.



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 March 31, 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.

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 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 twelve months ended December 31, 2008, the Company issued 5,500,000 shares of common stock and warrants for \$55,000. The Company also issued 400,000 shares of common stock for services rendered valued at \$4,000.

The Company entered into an employment agreement effective April 1, 2008 whereby the Company would issue two separate option agreements to the Company president. The first option agreement would have allowed the Company president to purchase up to 5,000,000 shares of the Company common stock at \$.01 per share and the second option agreement would have allowed the Company president to purchase up to 5,000,000 shares of the Company common stock at \$.03 per share. The vesting of the option agreements were to be based upon performance incentives to be determined by the Board of Directors. The employment agreement was amended on August 13, 2008, to allow the Company to issue stock options for an aggregate of 10,000,000 shares of common stock of the Company on such dates and according to such terms as designated by the Board of Directors of the Company.

During the twelve months ended December 31, 2009, the Company issued 2,500,000 shares of common stock for deposits it received in 2008, and an additional 250,000 shares for \$500 it received for the exercise of warrants. The Company should have only received \$250 for this last warrant exercise and accordingly has recorded a shareholder deposit at December 31, 2009 for \$250, reflecting the amount to be returned to the shareholder. The total value of the stock issued during 2009 was \$4,000, and \$3,750 in deposits were returned to the shareholders, as original deposit amounts exceeded the agreed upon stock prices in the underlying stock subscription agreements.

During the three months ended March 31, 2010, the Company did not issue any shares of common stock. There were no outstanding stock warrants or stock options at March 31, 2010.

E. LONG TERM NOTE PAYABLE – RELATED PARTY

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 or having an interest in now or in the future in the Detrital Wash and Wickieup properties located in Mohave County, Arizona along with any future claims acquired by the Company. At March 31, 2010, the Company had borrowed \$500,000 under the terms of this loan agreement and had accrued interest of \$49,455. The principal amount borrowed, together with accrued interest, is due and payable on December 3, 2010.

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 March 31, 2010, the Company had borrowed \$200,000 under the terms of this loan agreement, and had accrued interest of \$43,214.

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. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 24, 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 second quarter of 2010.

During the fourth quarter of 2009 and the first quarter of 2010, we obtained cash advances from our Chairman to satisfy our current obligations and to continue exploration work on our Detrital Wash Property through the first quarter of 2010. See “– GENERAL – Financing.” We will need to raise additional equity or debt financing to fund our operating costs and our planned mineral exploration work and to service our current debt obligations for the remainder of 2010, unless and until we are able to generate substantial revenues from our mineral properties. If we do not obtain substantial additional financing, we may not have sufficient capital to continue operating as a public company or at all beyond the second quarter of 2010. 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 two properties that we believe show potential for mineral development. Both 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 3.5 square miles 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 83 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 79 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 in 2008 and 2009 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 and silver 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.

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 2009, our Chairman, on behalf of the Company, paid a total of \$10,500 in annual maintenance fees to the BLM for 75 previously recorded lode claims in the Detrital Wash Property. We have agreed to reimburse our Chairman for this payment. We did not incur any filing or maintenance fees for our claims in the Detrital Wash Property during the first quarter of 2010.

### 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. See “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – GENERAL – Exploration Program” for more information regarding our exploration program. During 2010, we plan to continue to evaluate our claim holdings based on the results of our exploration work.

During the first quarter of 2010, we obtained BLM approval and conducted drilling work on certain areas of our Detrital Wash Property showing high mineralization results from our previous assays. We have assayed the mineral

samples collected from this drilling and have conducted additional geological mapping of these areas. We are currently evaluating this data to assess the value of our existing properties and to determine the next phase of our exploration work. Based on this determination and subject to available funding, we plan to conduct further geochemical and geophysical testing as needed to complete our assessment of the mineral reserve potential of these properties.

We are currently considering potential options to raise additional capital to fund our planned exploration work and our operating and compliance costs for the remainder of 2010. We believe we will need to raise approximately \$500,000 to substantially complete our next phase of exploration work and to fund our operations for the remainder of 2010. Subject to available funding and the assessment of our geologists, we plan to record any unfiled claims which show significant potential for mineral reserves, and 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 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 conduct our planned exploration activities. See “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – GENERAL – Plan of Operation” and “ – Going Concern.”

#### Wikieup, Arizona Property

##### Property and Location

Our Wikieup property (the “Wikieup Property”) consists of 42 lode claims located approximately three miles west of U.S. Highway 93 in Section 36, Township 16N, Range 14W in the Hualapai Mountain Range at Wikieup, Arizona. These claims comprise approximately 840 acres of mountainous terrain. The property is easily accessible by paved and dirt roads west of Wikieup, Arizona, from U.S. Highway 93 and has nearby access to electricity and water.

The Hualapai Mountain Range consists of pre-cambrian gneiss and schist that has locally been intruded by quartz monzonite and granitic rocks of probable Laramide age. Laramide age intrusives are traditionally one of the primary host rocks for Arizona porphyry copper deposits. Notable ore deposits and mines nearby are the Oatman Mining District to the northwest and the Bagdad open pit copper mine to the southeast of this area.

We purchased the Wikieup claims from Gold Standard Mines, Inc. in March 2001 in exchange for which we issued 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 51 lode mining claims. The deed was subsequently recorded at the United States Bureau of Land Management office in Phoenix, Arizona, and at Mohave County in Kingman, Arizona.

In 2009, our Chairman, on behalf of the Company, paid an aggregate of \$5,880 in annual maintenance fees to the BLM for the Wikieup Property. We have agreed to reimburse our Chairman for this payment. We did not incur any filing or maintenance fees for our claims in the Wikieup Property during the first quarter of 2010.

##### Operations

Due to our limited financial resources, we do not currently have plans to engage in development activities on the Wikieup Property during 2010. Should adequate financing become available in the future, management may implement an aggressive campaign to identify through accepted geological processes any mineralization occurring on our Wikieup claims.

##### 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 our obtaining additional debt or equity financing.

We are currently pursuing options to obtain funding to continue exploration work on our properties and to fund our current and future operating and compliance costs. As of this Report, we have not yet obtained the necessary level of funds to further implement our exploration program on our Detrital Wash Property or to fund our operating and compliance costs through and beyond the second quarter of 2010. We cannot guarantee that we will obtain 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 March 31, 2010, our total assets are \$6,510, consisting of \$6,131 in cash and \$379 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 three months ended March 31, 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 2010 to pay our exploration and other operating expenses during the first quarter of 2010, which consisted largely of costs associated with our drilling, assaying, sampling and mapping activities, legal compliance expenses accrued during 2009, and our payment of an outstanding balance owed to the IRS for unpaid payroll taxes, penalties and interest from 2006. See “LEGAL PROCEEDINGS” for more information regarding the IRS matter. We anticipate our remaining cash being depleted during the second quarter of 2010 unless we are able to raise additional funds to support our continued operations.

Our total liabilities as of March 31, 2010, are \$1,293,254, an increase of \$38,042 over total liabilities at December 31, 2009, of \$1,255,212. This increase is attributable largely to an additional \$50,000 cash advance provided by our Chairman in the first quarter of 2010 to fund our exploration activities and general operating and compliance costs during the period, along with an additional \$13,206 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. These increases were offset in part by modest decreases in our accounts payable and accrued expenses due to the use of available funds to pay current operating expenses during the quarter and certain outstanding expenses, as described above. We anticipate that our liabilities during the second quarter of 2010 will depend substantially on the amount of additional financing, if any, we are able to raise to fund our short-term operating and exploration costs, whether such financing is in the form of equity or debt, our determination as to the next phase of exploration work on our Detrital Wash Property, and our ability to implement any planned exploration activity during the quarter.

#### Three Months Ended March 31, 2010, Compared to Three Months Ended March 31, 2009

**Net Loss.** Our net loss for the quarter ended March 31, 2010, was \$80,571, compared to a net loss of \$111,234 during the quarter ended March 31, 2009, a decrease of 27.57%. The decrease in our net loss for the first quarter of 2010 over the first quarter of 2009 was due primarily to lower mineral exploration costs, compensation and management fees and general and administrative expenses during the first quarter of 2010 as compared to the same period in 2009. These decreases were partially offset by increases in professional fees and interest expense.

**Mineral Exploration Costs Expense.** Mineral exploration costs expense for the three-month period ended March 31, 2010, was \$18,631, compared to \$39,929 for the three-month period ended March 31, 2009, a decrease of \$21,298, or 53.34%. This significant decrease resulted primarily from our much smaller group of mineral claims in the Detrital Wash Property as compared to the first quarter of 2009, as the result of our decision to significantly reduce our 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 quarter of 2010 consisted primarily of fees and expenses paid to our geologists and other third parties in connection with our drilling, assaying, sampling and mapping activities on our Detrital Wash

Property. During the first quarter 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 quarter of 2010 increased over the same period in 2008 by \$10,494, or 53.52%, to \$30,098, compared to \$19,604 during the first quarter of 2009. Our professional fees for the first quarter of 2010 consisted mostly of fees paid to our consultant geologists for work related to our exploration program during the fourth quarter of 2009 and the first quarter of 2010. Our professional fees for the first quarter of 2009 consisted primarily of payments for legal compliance expenses incurred during 2008.

**Compensation and Management Fees Expense.** Our compensation and management fees expense during the first quarter of 2010 decreased by \$9,317, or 47.02%, from \$19,817 during the first quarter of 2009 to \$10,500 during the first quarter of 2010. This substantial decrease was due primarily to our payment in January 2009 of accrued compensation to our president from the fourth quarter of 2008. Compensation and management fees expense during the first quarter of 2010 consisted of salary earned by our President during the three-month period.

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

**General and Administrative Costs Expense.** Our general and administrative costs decreased by \$8,037, or 50.95%, to \$7,736 during the quarter ended March 31, 2010, compared to \$15,773 during the quarter ended March 31, 2009. The decrease in general and administrative expense is attributable primarily to more limited operating activity during the first quarter of 2010 as compared the same period in 2009 due to our more limited operating funds.

**Interest Income and Other Income.** We did not have any interest income or other income during the three-month period ended March 31, 2010, or during the same period in 2009.

**Interest Expense.** During the first quarter of 2010, we incurred interest expense of \$13,207 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 63.29% increase in our interest expense from \$8,088 for the first quarter 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.

#### 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.

The assays report that copper values of the rock samples collected range from 25 parts per million (ppm) to 6.10% copper (10,000 ppm equals one percent). A value of 20 ppm (or 0.002%) or higher is generally considered to be of potential value for exploration purposes. There were thirteen samples above 1.0% copper, seventeen samples with values between 0.10% and 0.99% copper, and one soil sample at 0.081% copper. The remainder of the rock and soil samples ranged from 25 ppm to 599 ppm copper. The molybdenum values from rock and soil samples range from nine samples below detection limit of 1 ppm to 906 ppm molybdenum. Anomalous silver, lead and arsenic are also present in these samples.

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 show the presence of anomalous gold, silver, copper and molybdenum, as well as many indicator and pathfinder elements for both precious and base metals deposits. Results from the rock samples include grades of up to 7.17 grams per metric ton (gpmt) gold and 712.0 gpmt silver, confirming the presence of gold and silver rich zones of mineralization along trends containing historically mined deposits. Soil geochemical samples include values of up to 1.325 ppm gold and 6.9 ppm silver. These assays also show improved results in copper and molybdenum values from the Company's 2008 sampling. Rock sample geochemical values of greater than 10,000 ppm (or 1.0%) copper and up to 1,827.3 ppm molybdenum were also reported.

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 an aggressive follow-up program of 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 show mineralization that is 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 quarter 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 also obtained additional mapping of the geology in the Detrital Wash Property and nearby areas. We have received the results of these assays from Skyline as well as the new mapping and are evaluating this data and assessing the additional work needed to determine the commercial viability of our exploration program. Based on our initial assessment, subject to available funding, we believe further exploration work on the Detrital Wash Property is warranted.

#### Plan of Operation

Our management, in consultation with our geologists, is working to develop a short-term plan for further exploration on the Detrital Wash Property, which may include additional drilling, close-order geochemical work, and additional

geologic mapping and sampling. In conjunction with this work, we may locate additional claims or release existing claims as warranted by the ongoing exploration results and as funding permits. Subject to available funding and the assessment of our geologists, we intend to record any unfiled claims that show significant potential for mineral reserves. 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. During 2010, we intend to continue to seek potential joint venture opportunities 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 believe the results obtained thus far show sufficient mineralization to warrant further exploration of the properties. However, we will need to obtain additional capital resources to continue such exploration activity. We are currently considering options to pursue additional financing during the second quarter of 2010 to fund our operating expenses for the remainder of 2010 and to complete our exploration work. We believe we will need to raise approximately \$500,000 to complete our potential drilling, geochemical work, and additional sampling and mapping and to fund our current operations for the remainder of the year. We will continue to consider all 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 cannot guarantee that we will be able to raise the necessary additional capital on terms favorable to us or at all to allow us to continue our exploration program. 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. 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. Until such funding is obtained, we are unable to substantially continue our exploration program. See “– GENERAL – Going Concern.”

We do not presently plan to conduct development activities on the Wikieup Property during 2010. Should adequate financial resources become available in the future, we may aggressively pursue a program to identify any mineralization occurring on the Wikieup Property. See “PROPERTIES – Wikieup, Arizona 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. 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 pursue means to fund our current and future operations and to continue 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 an additional \$50,000 to the Company in January 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 obtain 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. 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 three months ended March 31, 2010.

We have used the funds advanced by our Chairman to fund our operating and compliance costs during the first quarter of 2010. We plan to use the remaining amount of these funds to partially fund our operating and compliance costs during the second quarter of 2010. However, as of this Report, we do not have sufficient funds to satisfy our current obligations beyond the second quarter of 2010. 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 second quarter of 2010. We must raise additional funds through debt or equity financings to continue our operations through and beyond the second quarter of 2010 and to service our existing debt obligations from our December 2007 and December 2008 lines of credit. We can provide no assurance that we will be able to 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

		Three months ended March 31,	
		2010	2009
Net cash used in operating activities	\$	(92,457)	\$ (124,860)
Net cash provided by investing activities		—	—
Net cash provided by financing activities		50,000	173,375

### General

Overall, we had negative cash flows of \$42,457 for the three months ended March 31, 2010, resulting from \$92,457 used in our operating activities and \$50,000 provided by our financing activities. No cash was provided by investing activities during the three months ended March 31, 2010. For the three months ended March 31, 2009, we had positive cash flows of \$48,515. The large negative difference in cash flows for the three-month period ended March 31, 2010, versus the same period in 2009 reflects \$123,375 less cash provided by financing activities, offset in part by \$32,403 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 three-month period ended March 31, 2010, net cash used in our operating activities was \$92,457, a decrease of \$32,403 from the same period in 2009. This decrease was due primarily to the \$30,663 decrease in our net loss for the interim period in 2010 over the interim period in 2009, which resulted primarily from the smaller amounts expended for our mineral exploration activity on our Detrital Wash Property and the reduced compensation and administrative expenses for the first quarter of 2010 compared to the first quarter of 2009. The additional accrued interest and larger decrease in accounts payable and accrued expenses in the first quarter of 2010 largely offset the loss on our sale and

disposal of our trailer and all-terrain vehicles, the decrease in accounts receivable and prepaid expenses related to our assays, and the decrease in shareholder deposits during the first quarter of 2009.

### Cash Provided by Our Financing Activities

Net cash provided by our financing activities of \$50,000 during the three-month period ended March 31, 2010, was comprised of the \$50,000 cash advance provided by our Chairman in January 2010. This reflects a decrease of \$123,375 as compared to net cash provided by financing activities during the three months ended March 31, 2009. Net cash provided by financing activities during the first three months of 2009 resulted from \$170,000 in funds borrowed under a line of credit obtained by the Company in December 2008 and \$3,375 recognized in connection with the sale of our common stock upon exercise common stock warrants.

### Internal Sources of Liquidity

For the three-month period ended March 31, 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. See “– GENERAL – Financing.” We have used most of these funds to pay operating expenses for the fourth quarter of 2009 and to fund our exploration work and operating expenses during the first quarter of 2010. We intend to use the remaining amount of these funds to fund a portion of our operating and compliance costs for the second quarter of 2010. However, 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 will need to raise other funds in the second quarter of 2010 through debt or equity financings. We can provide no assurance that we will be able to raise the necessary 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 first quarter of 2010, and does not expect that it will in the second 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.

### 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, March 31, 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 March 31, 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

During the second quarter of 2009, the Company received a notice of balance due from the Internal Revenue Service (IRS), dated June 8, 2009, demanding payment in the amount of \$15,125 for unpaid taxes, penalty and interest. The outstanding liability included \$8,811 in unpaid taxes, \$4,273 in penalty and \$2,041 in interest. The unpaid taxes consist of payroll taxes which were not remitted by a former officer of the Company for the tax period of September 30, 2006. We reviewed the matter and concluded that the taxes owed were properly calculated. We contacted the IRS in attempt to resolve the outstanding balance and to request relief from the penalty and interest owed. We received a letter from the IRS dated March 15, 2010, denying our request for relief. On March 22, 2010, we submitted payment to the IRS for the full outstanding liability, including penalty and interest calculated through March 25, 2010, in the amount of \$15,900. We have received a notice from the IRS, dated April 19, 2010, confirming that this payment was received and has been applied to the outstanding balance for the period in question.

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. Except as described above, at March 31, 2010, we know of no other 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 March 31, 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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Index

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
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: May 24, 2010  
Sterling M. Redfern  
President and Director

By: /s/ Sterling M. Redfern

Date: May 24, 2010  
Jacquelyn B. Wine  
Secretary, Treasurer/Chief  
Financial Officer and Director

By: /s/ Jacquelyn B. Wine