

NOVASTAR RESOURCES LTD.
Form 10QSB
May 22, 2006

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended **March 31, 2006**

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

For the transition period from _____ to _____

Commission file number **000-28543**

NOVASTAR RESOURCES LTD.

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

Nevada

(State or other jurisdiction of incorporation or
organization)

91-1975651

(IRS Employer Identification No.)

8300 Greensboro Drive, Suite 800, McLean, VA 22102

(Address of principal executive offices)

800.685.8082

(Issuer's telephone number, including area code)

N/A

(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 No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
(Check one): Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

127,848,785 shares of common stock issued and outstanding as of May 18, 2006 with a par value of \$0.001 per share.

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

Part I -- Financial Information

Item 1. Financial Statements.

We have prepared the financial statements included herein without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such Securities and Exchange Commission rules and regulations. In our opinion, the accompanying statements contain all adjustments necessary to present fairly the financial position of our company as of March 31, 2006, and its results of operations for the three month and six month periods ended March 31, 2006 and 2005 and its cash flows for the six month periods ended March 31, 2006 and 2005. The results for these interim periods are not necessarily indicative of the results for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and the notes thereto filed as a part of our annual report on Form 10-KSB.

NOVASTAR RESOURCES LTD.
(Formerly Custom Branded Networks, Inc.)
(An Exploration Stage Company)

THIRD QUARTER FINANCIAL STATEMENTS

MARCH 31, 2006
(Unaudited)
(Stated in U.S. Dollars)

NOVASTAR RESOURCES LTD.
(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Stated in U.S. Dollars)

| | MARCH 31 2006 | JUNE 30 2005 |
|---|---------------------|-----------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 66,516 | \$ 802 |
| Restricted cash | - | 94,140 |
| Less: Refundable to subscribers of common stock | - | (94,140) |
| Prepaid expenses | 258,444 | - |
| | 324,960 | 802 |
| Long Term Investment | 700,000 | - |
| Exploration Equipment | 55,290 | - |
| | \$ 1,080,250 | \$ 802 |
| LIABILITIES | | |
| Current | | |
| Accounts payable | \$ 306,581 | \$ 121,438 |
| Accrued liabilities | 378,061 | 103,542 |
| Due to related party | 6,863 | - |
| | 691,505 | 224,980 |
| STOCKHOLDERS EQUITY (DEFICIENCY) | | |
| Share Capital | | |
| Authorized: | | |
| 250,000,000 voting common shares with a par value of \$0.001 per share | | |
| 50,000,000 preferred shares with a par value of \$0.001 per share | | |
| Issued and outstanding: | | |
| 112,015,606 common shares (June 30, 2005 - 86,072,532) | 112,015 | 86,073 |
| Additional paid-in capital | 11,259,343 | 3,832,247 |
| Share Subscriptions Received | 250,000 | - |
| Common Share Purchase Warrants | 352,918 | 495,834 |
| Shares Committed For Issuance | 4,150,000 | - |
| Accumulated Deficit | (15,037,919) | (4,138,365) |
| Deferred Stock Compensation | (697,612) | (499,967) |
| | 388,745 | (224,178) |

\$ **1,080,250** \$ 802

The accompanying notes are an integral part of these financial statements

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NOVASTAR RESOURCES LTD.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Stated in U.S. Dollars)

| | THREE MONTHS ENDED MARCH 31 | | NINE MONTHS ENDED MARCH 31 | | CUMULATIVE PERIOD FROM INCEPTION JUNE 18 1999 TO MARCH 31 2006 |
|---|--------------------------------|---------|-------------------------------|---------|--|
| | 2006 | 2005 | 2006 | 2005 | |
| Revenue | \$ - | \$ - | \$ - | \$ - | \$ 184,162 |
| Expenses | | | | | |
| Consulting | 1,219,379 | 833,048 | 3,362,399 | 833,048 | 5,860,312 |
| Interest attributable to beneficial conversion feature for notes payable Interest other Public relations Legal General and administrative Accounting Forgiveness of debt Mineral property acquisition costs Mineral property | - | 411,693 | - | 442,813 | 579,379 |
| | - | - | - | - | 678 |
| | 37,167 | - | 132,785 | - | 276,128 |
| | 246,704 | - | 273,776 | - | 483,372 |
| | 58,488 | 77,439 | 69,994 | 80,526 | 990,117 |
| | 7,811 | - | 50,113 | - | 128,981 |
| | - | - | - | - | (169,818) |
| | - | - | 1,720,544 | - | 1,770,544 |

| | | | | | |
|--------------------------------|-----------------------|-----------------------|------------------------|-----------------------|------------------------|
| exploration | | | | | |
| | 224,946 | - | 269,608 | - | 269,608 |
| expenses | | | | | |
| | (1,754,166) | - | - | - | - |
| Cancellation costs | | | | | |
| Stock based | | | | | |
| | 5,020,335 | - | 5,020,335 | - | 5,020,335 |
| compensation | | | | | |
| Write down of | | | | | |
| | - | - | - | - | 12,445 |
| equipment | | | | | |
| | 5,060,664 | 1,322,180 | 10,899,554 | 1,356,387 | 15,222,081 |
| Net Loss For The Period | \$ (5,060,664) | \$ (1,322,180) | \$ (10,899,554) | \$ (1,356,387) | \$ (15,037,919) |

Net Loss Per Common

| | | | | |
|--------------------------|------------------|------------------|------------------|------------------|
| Share, Basic and diluted | \$ (0.04) | \$ (0.02) | \$ (0.11) | \$ (0.03) |
|--------------------------|------------------|------------------|------------------|------------------|

Weighted Average Number Of Shares Outstanding

| | | | |
|--------------------|-------------------|--------------------|-------------------|
| 130,887,505 | 65,722,532 | 103,148,271 | 50,110,123 |
|--------------------|-------------------|--------------------|-------------------|

The accompanying notes are an integral part of these financial statements

NOVASTAR RESOURCES LTD.
(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Stated in U.S. Dollars)

| | NINE MONTHS ENDED | | CUMULATIVE PERIOD FROM JUNE 28, 1999 (INCEPTION) TO MARCH 31 2006 |
|---|-------------------|------------------|---|
| | 2006 | MARCH 31 2005 | |
| Cash provided by (used in): | | | |
| Operating Activities | | | |
| Loss for the period | \$ (10,899,554) | \$ (1,356,387) | \$ (15,037,919) |
| Items not involving cash: | | | |
| Shares issued for other than cash | 10,028,491 | 733,048 | 12,413,024 |
| Interest attributable to beneficial conversion feature | | | |
| for notes payable | - | 442,813 | 579,379 |
| Amortization of equipment | 2,910 | 117 | 6,723 |
| Forgiveness of debt | - | - | (169,818) |
| Write down of equipment | - | - | 12,445 |
| Changes in non-cash operating working capital items: | | | |
| Accounts payable and accrued liabilities | 459,662 | 72,528 | 854,460 |
| Due to related party | 44,363 | - | 44,363 |
| Prepaid expenses | (258,444) | - | (258,444) |
| Net Cash Used In Operating Activities | (622,572) | (107,881) | (1,555,787) |
| Investing Activities | | | |
| Purchase of equipment | (58,200) | - | (60,008) |
| Acquisition of long term investment | (700,000) | - | (700,000) |
| Net Cash Used In Investing Activities | (758,200) | - | (760,008) |
| Financing Activities | | | |
| Proceeds from loan payable to shareholder | - | - | 16,097 |
| Issue of common shares | 1,596,486 | - | 1,615,436 |
| Share subscriptions received | 250,000 | - | 250,000 |
| Cash paid for redemption of shares | (400,000) | - | (400,000) |
| Advances on notes payable | - | 107,881 | 900,000 |
| Cash acquired on acquisition of subsidiary | - | - | 778 |
| Net Cash Provided By Financing Activities | 1,446,486 | 107,881 | 2,382,311 |
| Net Increase (Decrease) In Cash | 65,714 | - | 66,516 |
| Cash, Beginning Of Period | 802 | - | - |

| | | | | | |
|----------------------------|------------------|----|---|----|--------|
| Cash, End Of Period | \$ 66,516 | \$ | - | \$ | 66,516 |
|----------------------------|------------------|----|---|----|--------|

Supplemental Disclosure of Cash Flow Information

Cash paid during the period:

| | | | | | |
|-------------------|------|----|---|----|---|
| Interest paid | \$ - | \$ | - | \$ | - |
| Income taxes paid | \$ - | \$ | - | \$ | - |

The accompanying notes are an integral part of these financial statements

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NOVASTAR RESOURCES LTD.**(An Exploration Stage Company)****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (DEFICIENCY)****PERIOD FROM JUNE 28, 1999 (INCEPTION) TO MARCH 31, 2006****(Unaudited)****(Stated in U.S. Dollars)**

| | COMMON STOCK | | COMMON STOCK PURCHASE WARRANTS | | ADDITIONAL PAID-IN | DEFERRED | SHARE |
|---|--------------|--------|--------------------------------------|--------|-----------------------|--------------|--------------------------|
| | SHARES | AMOUNT | WARRANTS | AMOUNT | CAPITAL | COMPENSATION | SUBSCRIPTION RECEIVED |
| Issuance of shares to founders | 3,465 | \$ 3 | - | \$ - | 18,947 | \$ - | |
| Net loss for the period | - | - | - | - | - | - | |
| Balance, June 30, 2000 | 3,465 | 3 | - | - | 18,947 | - | |
| Repurchase of common stock by consideration of forgiveness of loan payable to shareholder | (1,445) | (1) | - | - | 16,098 | - | |
| Adjustment to number of shares issued and outstanding as a result of the reverse | 2,020 | 2 | - | - | 35,045 | - | |