

CUSTOM BRANDED NETWORKS INC  
Form 10QSB  
May 17, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-QSB

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

For the quarterly period ended MARCH 31, 2005

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

For the transition period to

Commission File Number 000-28535

NOVASTAR RESOURCES LTD.

(Exact name of small Business Issuer as specified in its charter)

|  |                                   |
|--|-----------------------------------|
| NEVADA   | 91-1975651                        |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

821 E. 29TH  
NORTH VANCOUVER, B.C. V7K 1B6

(Address of principal executive offices) (Zip Code)

Issuer's telephone number, including area code: 604-904-6946

CUSTOM BRANDED NETWORKS, INC.

(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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days  Yes  No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 73,172,532 SHARES OF \$.001 PAR VALUE COMMON STOCK OUTSTANDING AS OF MARCH 31, 2005.

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying un-audited financial statements have been prepared in accordance with the instructions to Form 10-QSB and, therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' deficit in conformity with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the nine months ended March 31, 2005 are not necessarily indicative of the results that can be expected for the year ending June 30, 2005.

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**CUSTOM BRANDED NETWORKS, INC.**  
**(A Development Stage Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2005**  
**(Unaudited)**  
**(Stated in U.S. Dollars)**

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**CUSTOM BRANDED NETWORKS, INC.**  
**(A Development Stage Company)**

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

**MARCH 31**  
**2005**

**JUNE 30**  
**2004**

**ASSETS**

|                       |    |     |    |     |
|-----------------------|----|-----|----|-----|
| <b>Equipment, net</b> | \$ | 657 | \$ | 774 |
|-----------------------|----|-----|----|-----|

**LIABILITIES**

**Current**

|  |    |         |    |         |
|--|----|---------|----|---------|
| Accounts payable and accrued liabilities | \$ | 226,373 | \$ | 323,663 |
|--|----|---------|----|---------|

|  |  |   |  |         |
|--|--|---|--|---------|
| Convertible Note Payable, net of discount (Note 2) |  | - |  | 449,306 |
|--|--|---|--|---------|

|  |  |                |  |                |
|--|--|----------------|--|----------------|
|  |  | <b>226,373</b> |  | <b>772,969</b> |
|--|--|----------------|--|----------------|

**STOCKHOLDERS' DEFICIENCY**

**Share Capital**

Authorized (Note 4):

250,000,000 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 (none issued)

Issued and outstanding:

73,172,532 common shares at March 31, 2005 and

|   |  |               |  |        |
|---|--|---------------|--|--------|
| 38,372,532 common shares at June 30, 2004 |  | <b>73,173</b> |  | 38,373 |
|---|--|---------------|--|--------|

|                            |  |                  |  |         |
|----------------------------|--|------------------|--|---------|
| Additional paid-in capital |  | <b>2,687,299</b> |  | 636,281 |
|----------------------------|--|------------------|--|---------|

|  |  |                    |  |             |
|--|--|--------------------|--|-------------|
| Deficit Accumulated During The Development Stage |  | <b>(2,803,236)</b> |  | (1,446,849) |
|--|--|--------------------|--|-------------|

|                       |  |                  |  |           |
|-----------------------|--|------------------|--|-----------|
| Deferred Compensation |  | <b>(182,952)</b> |  | -         |
|                       |  | <b>(225,716)</b> |  | (772,195) |

|  |    |     |    |     |
|--|----|-----|----|-----|
|  | \$ | 657 | \$ | 774 |
|--|----|-----|----|-----|



**CUSTOM BRANDED NETWORKS, INC.**  
**(A Development Stage Company)**

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**  
**(Stated in U.S. Dollars)**

|  | <b>THREE MONTHS ENDED</b> |                    | <b>NINE MONTHS ENDED</b> |                    | <b>INCEPTION</b>      |
|--|---------------------------|--------------------|--------------------------|--------------------|-----------------------|
|  | <b>MARCH 31</b>           |                    | <b>MARCH 31</b>          |                    | <b>JUNE 18</b>        |
|  | <b>2005</b>               | <b>2004</b>        | <b>2005</b>              | <b>2004</b>        | <b>1999 TO</b>        |
|  |                           |                    |                          |                    | <b>MARCH 31</b>       |
|  |                           |                    |                          |                    | <b>2005</b>           |
| <b>Revenue</b>                                       | \$ -                      | \$ -               | \$ -                     | \$ -               | \$ 184,162            |
| <b>Expenses</b>                                      |                           |                    |                          |                    |                       |
| Administrative expenses                              | 77,439                    | 3,432              | 80,526                   | 33,516             | 1,511,848             |
| Consulting fees                                      | 833,048                   | -                  | 833,048                  | -                  | 833,048               |
| Interest expense                                     | 411,693                   | 13,581             | 442,813                  | 40,743             | 580,057               |
| Mineral property payment                             | -                         | -                  | -                        | -                  | 50,000                |
| Write down of capital assets                         | -                         | -                  | -                        | -                  | 12,445                |
|  | <b>1,322,180</b>          | <b>17,013</b>      | <b>1,356,387</b>         | <b>74,259</b>      | <b>2,987,398</b>      |
| <b>Net Loss For The Period</b>                       | <b>\$ (1,322,180)</b>     | <b>\$ (17,013)</b> | <b>\$ (1,356,387)</b>    | <b>\$ (74,259)</b> | <b>\$ (2,803,236)</b> |
| <b>Basic And Diluted Loss Per Share</b>              | <b>\$ (0.02)</b>          | <b>\$ (0.01)</b>   | <b>\$ (0.03)</b>         | <b>\$ (0.01)</b>   |                       |
| <b>Weighted Average Number Of Shares Outstanding</b> | <b>65,722,532</b>         | <b>38,372,352</b>  | <b>50,110,123</b>        | <b>38,372,532</b>  |                       |

**CUSTOM BRANDED NETWORKS, INC.**  
**(A Development Stage Company)**

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

|  | <b>NINE MONTHS ENDED</b> |                | <b>INCEPTION</b>   |
|--|--------------------------|----------------|--------------------|
|  | <b>MARCH 31</b>          |                | <b>JUNE 28</b>     |
|  | <b>2005</b>              | <b>2004</b>    | <b>1999 TO</b>     |
|  |                          |                | <b>MARCH 31</b>    |
|  |                          |                | <b>2005</b>        |
| <b>Operating Activities</b>                        |                          |                |                    |
| Net loss for the period                            | \$ (1,356,387)           | \$ (74,259)    | \$ (2,803,236)     |
| <b>Adjustments To Reconcile Loss To Net Cash</b>   |                          |                |                    |
| <b>Used By Operating Activities</b>                |                          |                |                    |
| Shares issued for other than cash                  | 733,048                  | 22,500         | 778,048            |
| Amortization                                       | 117                      | 145            | 3,156              |
| Amortization of interest                           | 442,813                  | 40,743         | 579,379            |
| Write down of capital assets                       | -                        | -              | 12,445             |
| Change in accounts payable and accrued liabilities | 72,528                   | 6,449          | 396,191            |
|  | <b>(107,881)</b>         | <b>(4,422)</b> | <b>(1,034,017)</b> |
| <b>Investing Activity</b>                          |                          |                |                    |
| Purchase of capital assets                         | -                        | -              | (1,808)            |
| <b>Financing Activities</b>                        |                          |                |                    |
| Proceeds from loan payable to shareholder          | -                        | -              | 16,097             |
| Issue of common shares                             | -                        | -              | 18,950             |
| Convertible note payable                           | 107,881                  | 4,422          | 1,000,000          |
| Cash acquired on acquisition of subsidiary         | -                        | -              | 778                |
|  | <b>107,881</b>           | <b>4,422</b>   | <b>1,035,825</b>   |
| <b>(Decrease) Increase In Cash</b>                 | <b>-</b>                 | <b>-</b>       | <b>-</b>           |
| <b>Cash, Beginning Of Period</b>                   | <b>-</b>                 | <b>894</b>     | <b>-</b>           |
| <b>Cash, End Of Period</b>                         | <b>\$ -</b>              | <b>\$ 894</b>  | <b>\$ -</b>        |

**CUSTOM BRANDED NETWORKS, INC.**  
**(A Development Stage Company)**

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY**

**PERIOD FROM INCEPTION ON JUNE 28, 1999 TO MARCH 31, 2005**

**(Unaudited)**

**(Stated in U.S. Dollars)**

|  | COMMON STOCK<br>SHARES | COMMON STOCK<br>AMOUNT | ADDITIONAL<br>PAID-IN<br>CAPITAL | DEFERRED<br>COMPENSATION | DEFICIT<br>ACCUMULATED<br>DURING THE<br>DEVELOPMENT<br>STAGE | TOTAL     |
|--|------------------------|------------------------|----------------------------------|--------------------------|--|-----------|
| Issuance of shares to founders   | 3,465                  | \$ 3                   | \$ 18,947                        | \$ -                     | \$ -   | \$ 18,950 |
| Net loss for the period  |                        | -                      | -                                | -                        | (159,909)  | (159,909) |
| Balance, June 30, 2000   | 3,465                  | 3                      | 18,947                           | -                        | (159,909)  | (140,959) |
| Repurchase of common stock by consideration of forgiveness of loan payable to shareholder              | (1,445)                | (1)                    | 16,098                           | -                        | -  | 16,097    |
|  | 2,020                  | 2                      | 35,045                           | -                        | (159,909)  | (124,862) |
| Adjustment to number of shares issued and outstanding as a result of the reverse take-over transaction |                        |                        |                                  |                          |  |           |
| Custom Branded Networks, Inc.  | (2,020)                | (2)                    | 2                                | -                        | -  | -         |
| Aquistar Ventures (USA) Inc.   | 15,463,008             | 15,463                 | (15,463)                         | -                        | -  | -         |
|  | 15,463,008             | 15,463                 | 19,584                           | -                        | (159,909)  | (124,862) |
| Shares allotted in connection with the acquisition of Custom Branded Networks, Inc.                    | 25,000,000             | 25,000                 | (9,772)                          | -                        | -  | 15,228    |



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|                                   |             |         |         |   |           |           |
|-----------------------------------|-------------|---------|---------|---|-----------|-----------|
| Less: Allotted and not yet issued | (8,090,476) | (8,090) | 8,090   | - | -         | -         |
| Common stock conversion rights    | -           | -       | 421,214 | - | -         | 421,214   |
| Net loss for the year             | -           | -       | -       | - | (723,239) | (723,239) |
| Balance, June 30, 2001            | 32,372,532  | 32,373  | 439,116 | - | (883,148) | (411,659) |

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**CUSTOM BRANDED NETWORKS, INC.**  
**(A Development Stage Company)**

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY (Continued)**

**PERIOD FROM INCEPTION ON JUNE 28, 1999 TO MARCH 31, 2005**  
**(Unaudited)**  
**(Stated in U.S. Dollars)**

|   | <b>COMMON STOCK<br/>SHARES</b> | <b>COMMON STOCK<br/>AMOUNT</b> | <b>ADDITIONAL<br/>PAID-IN<br/>CAPITAL</b> | <b>DEFERRED<br/>COMPENSATION</b> | <b>DEFICIT<br/>ACCUMULATED<br/>DURING THE<br/>EXPLORATION<br/>STAGE</b> | <b>TOTAL</b> |
|---|--------------------------------|--------------------------------|---|----------------------------------|---|--------------|
| Balance, June 30,<br>2001   | 32,372,532                     | \$ 32,373                      | \$ 439,116                                | \$ -                             | \$ (883,148)  | \$ (411,659) |
| Additional shares<br>issued in<br>connection with<br>the acquisition of<br>Custom Branded<br>Networks, Inc. | 1,500,000                      | 1,500                          | (1,500)                                   | -                                | -   | -            |
| Common stock<br>conversion rights   | -                              | -                              | 109,748                                   | -                                | -   | 109,748      |
| Net loss for the-<br>year   |                                | -                              | -   | -                                | (326,038)   | (326,038)    |
| Balance, June 30,<br>2002   | 33,872,532                     | 33,873                         | 547,364                                   | -                                | (1,209,186)   | (627,949)    |
| Issue of common<br>stock for deferred<br>compensation<br>expense  | 4,500,000                      | 4,500                          | 40,500                                    | (45,000)                         | -   | -            |
| Amortization of<br>deferred<br>compensation   | -                              | -                              | -   | 22,500                           | -   | 22,500       |
| Common stock<br>conversion rights   | -                              | -                              | 45,116                                    | -                                | -   | 45,116       |
| Net loss for the-<br>year   |                                | -                              | -   | -                                | (142,233)   | (142,233)    |
| Balance, June 30,<br>2003   | 38,372,532                     | 38,373                         | 632,980                                   | (22,500)                         | (1,351,419)   | (702,566)    |

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|                                       |            |        |         |        |             |           |
|---------------------------------------|------------|--------|---------|--------|-------------|-----------|
| Amortization of deferred compensation | -          | -      | -       | 22,500 | -           | 22,500    |
| Common stock conversion rights        | -          | -      | 3,301   | -      | -           | 3,301     |
| Net loss for the year                 | -          | -      | -       | -      | (95,430)    | (95,430)  |
| Balance, June 30, 2004                | 38,372,532 | 38,373 | 636,281 | -      | (1,446,849) | (772,195) |

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**CUSTOM BRANDED NETWORKS, INC.**  
**(A Development Stage Company)**

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY (Continued)**

**PERIOD FROM INCEPTION ON JUNE 28, 1999 TO MARCH 31, 2005**  
**(Unaudited)**  
**(Stated in U.S. Dollars)**

|   | <b>COMMON STOCK<br/>SHARES</b> | <b>COMMON STOCK<br/>AMOUNT</b> | <b>ADDITIONAL<br/>PAID-IN<br/>CAPITAL</b> | <b>DEFERRED<br/>COMPENSATION</b> | <b>DEFICIT<br/>ACCUMULATED<br/>DURING THE<br/>EXPLORATION<br/>STAGE</b> | <b>TOTAL</b> |
|---|--------------------------------|--------------------------------|---|----------------------------------|---|--------------|
| Balance, June 30,<br>2004                         | 38,372,532                     | \$ 38,373                      | \$ 636,281                                | \$ -                             | \$ (1,446,849)  | \$ (772,195) |
| Issue of common<br>stock for services             | 14,800,000                     | 14,800                         | 901,200                                   | (182,952)                        | -   | 733,048      |
| Issue of common<br>stock for<br>convertible notes | 20,000,000                     | 20,000                         | 980,000                                   | -                                | -   | 1,000,000    |
| Forgiveness of<br>debt                            |                                | -                              | 169,818                                   | -                                | -   | 169,818      |
| Net loss for the<br>period                        | -                              | -                              | -   | -                                | (1,356,387)   | (1,356,387)  |
| Balance, March<br>31, 2005                        | 73,172,532                     | \$ 73,173                      | \$ 2,687,299                              | \$ (182,952)                     | \$ (2,803,236)  | \$ (225,716) |

**CUSTOM BRANDED NETWORKS, INC.**  
**(A Development Stage Company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2005**  
**(Unaudited)**  
**(Stated in U.S. Dollars)**

**1. BASIS OF PRESENTATION**

The unaudited consolidated financial statements as of March 31, 2005 included herein have been prepared 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 United States generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. It is suggested that these consolidated financial statements be read in conjunction with the June 30, 2004 audited consolidated financial statements and notes thereto.

**2. CONVERTIBLE NOTE PAYABLE**

On January 31, 2002, the Company executed \$1,000,000 aggregate principal amount of convertible notes due not earlier than January 31, 2009. The Company had received \$1,000,000 in advances through to March 31, 2005. The notes bore no interest until the maturity date. On January 20, 2005, the Company issued 20,000,000 common shares at a price of \$0.05 per share and 20,000,000 warrants to the holder on conversion of the notes. The warrants are exercisable at a price of \$0.05 per share until January 20, 2008.

Because the market interest rate on similar types of notes was approximately 14% per annum the day the notes were issued, the Company has recorded a discount of \$579,378 related to the beneficial conversion feature. The discount was fully amortized as interest expense upon conversion.

**3. RELATED PARTIES**

During the three month period ended March 31, 2005, two former directors forgave \$169,818 of accounts payable owned to them. This resulted in a charge to additional paid-in capital.

During the three month period ended March 31, 2005, the Company issued 2,000,000 common shares to a director for consulting services rendered at a value of \$40,000.

**CUSTOM BRANDED NETWORKS, INC.**  
**(A Development Stage Company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2005**  
**(Unaudited)**  
**(Stated in U.S. Dollars)**

**4. SUBSEQUENT EVENTS**

Effective May 10, 2005, the Company changed its name to Novastar Resources Ltd., and increased its authorized capital to 250,000,000 common shares with a par value of \$0.001 per share, and 50,000,000 preferred shares with a par value of \$0.001 per share.

(Stated in U.S. Dollars)

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

### Plan of Operations:

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At March 31, 2005, the Company had no cash on hand. Expenses for the fiscal quarter covered by this report totaled \$1,322,180 giving the Company a net loss for the quarter of \$1,322,180 since the Company has no operating revenues at the present time. This level of expense is an increase of approximately 84 times the expense of the prior fiscal quarter and is attributable mainly consulting fees paid to consultants that are moving the Company forward into the natural resource industry. The consulting fees were paid through the issuance of stock. Accordingly, the consulting fees do not represent cash payment or accrual on the part of the Company. The Company does have plans, however, to borrow money as needed to sustain current operations that require cash payment.

Since 2001, the business plan for the Company has been to provide Internet solutions to businesses and private organizations. However, since May of 2003, we have been actively looking for other business opportunities that would provide the Company with economic opportunity. Since that time, we have investigated several businesses and assets that we believed would have been excellent opportunities for the Company but as of yet have made no acquisitions. However, on May 1, 2005, the Company entered into an agreement through which it is entitled to acquire up to a 92.25% interest in mineral properties located in North Queensland, Australia. Our business plan for the next 12 months is to pursue the business opportunity represented by that agreement.

### Forward-Looking Statements:

Many statements made in this report are forward-looking statements that are not based on historical facts. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. The forward-looking statements made in this report relate only to events as of the date on which the statements are made.

## ITEM 3. CONTROLS AND PROCEDURES.

We have evaluated, with the participation of our Principal Executive Officer and Principal Financial Officer, the effectiveness of our disclosure controls and procedures as of March 31, 2005. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer has concluded that our disclosure controls and procedures are effective to ensure that we record, process, summarize, and report information required to be disclosed by us in our quarterly reports filed under the Securities Exchange Act within the time periods specified by the Securities and Exchange Commission's rules and forms. During the quarterly period covered by this report, there were no changes in our internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

### ITEM 2. CHANGES IN SECURITIES

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During the three month period ended March 31, 2005, the Company issued 2,000,000 common shares to an affiliate of the Company for consulting services rendered at a value of \$40,000. The Company also issued 20,000,000 common shares to the same person upon the conversion of \$1,000,000 in debt owed by the Company to that person. These stock issuances were exempt from registration pursuant to Section 4(2) of the Securities Exchange Act of 1933.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

On February 12, 2005, the Company held a special meeting of its shareholders at which the shareholders approved changing the name of the Company to Novastar Resources Ltd., authorizing 50,000,000 shares of preferred stock, and increasing the authorized common stock of the Company to 250,000,000 shares. 58% of the common stock of the Company attended the meeting either in person or by proxy and voted in favor of the proposals.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

EXHIBITS

|      |  |
|------|--|
| 31.1 | Certification by CEO and CFO pursuant to Rule 13a-14(a) or 15d-14(a) of The Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
|      |  |
| 32.1 | Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |

REPORTS ON FORM 8-K

None

SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NOVASTAR RESOURCES LTD.

Date: May 16, 2005

By: /s/ Paul G. Carter  
Paul G. Carter  
Principal Executive Officer



Principal Financial Officer  
Chief Accounting Office