

Thorium Power, Ltd  
Form 10-K  
March 27, 2008

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

**FORM 10-K**

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**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended: December 31, 2007**

**OR**

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**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: 000-28543**

**THORIUM POWER, LTD.**

(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other Jurisdiction of  
Incorporation or Organization)

91-1975651  
(I.R.S. Employer  
Identification Number)

**8300 Greensboro Drive, Suite 800  
McLean, Virginia 22102**

(Address of Principal Executive Office and Zip Code)

**(703) 918.4904**

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, par Value \$.001**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition 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 Act). Yes  NO

As of June 30, 2007, the aggregate market value of the shares of the Registrant's common stock held by non-affiliates

(based upon the closing price of such shares as reported on the Over-the-Counter Bulletin Board) was approximately \$30.6 million. Shares of the Registrant's common stock held by each executive officer and director have been excluded in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 19, 2008, there were 299,334,532 shares of the Registrant's common stock outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE

Part III (Items 10, 11, 12, 13 and 14) incorporates by reference portions of the Registrant's Proxy Statement for its Annual Meeting of Stockholders, which will be filed not later than 120 days after December 31, 2007.

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## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this report under Item 1 Business, Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations, Item 10 Directors, Executive Officers and Corporate Governance and Item 11 Executive Compensation including, without limitation, those concerning our liquidity and capital resources, contain forward-looking statements concerning our operations; financial condition; management forecasts; liquidity; anticipated growth; the economy; future economic performance; future acquisitions and dispositions; potential and contingent liabilities; management’s plans; taxes; and the development and utilization of our intellectual property. Because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. These statements may be preceded by, followed by or include the words believes, expects, anticipates, intends, plans, estimates or similar expressions.

Forward-looking statements are not guarantees of performance and by their nature are subject to inherent risks and uncertainties. We caution you therefore that you should not rely on these forward-looking statements. You should understand the risks and uncertainties discussed in the section on Risk Factors and elsewhere in this report, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements.

Any forward-looking information contained in this report speaks only as of the date of the report. Factors or events may emerge from time to time and it is not possible for us to predict all of them. We undertake no obligation to update or revise any forward-looking statements to reflect new information, changed circumstances or unanticipated events.

When used in this report, the terms Thorium Power, Company, we, our, and us refer to Thorium Power, Ltd. a wholly-owned subsidiary Thorium Power, Inc. ( Thorium Power, Inc. ).

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# PART I

## Item 1. Business.

### Corporate History and Structure

We were incorporated under the laws of the State of Nevada on February 2, 1999. During the period from inception until October 6, 2006 we were engaged in businesses other than our current business. On October 6, 2006, we acquired our wholly-owned subsidiary Thorium Power, Inc. in a merger transaction and changed our name to Thorium Power, Ltd. Thorium Power, Inc. was incorporated on January 8, 1992. The merger was accounted for as a reverse merger and Thorium Power, Inc. is treated as the accounting acquirer.

### General Overview

We participate in the nuclear power industry in the U.S. and internationally. We are a provider of nuclear energy consulting services and a developer of proprietary nuclear fuel designs. Our consulting services aim at providing strategic advice to international commercial and government owned entities in countries with new and growing nuclear energy programs. To date we have provided consulting services primarily to a foreign government-owned entity relating to the development of a roadmap as the first phase of a feasibility study for a prospective program to deploy civilian nuclear power plants within the foreign country. Our nuclear fuel development business involves the development of proprietary nuclear fuel designs which we intend ultimately to introduce for sale into three markets:

- (1) nuclear fuel designs for use in commercial nuclear power plants, (2) nuclear fuel designs for reactor-grade plutonium disposition, and (3) nuclear fuel designs for weapons-grade plutonium disposition.

### The Nuclear Power Industry

Presently, nuclear power provides approximately 7% of the world's energy, including 17% of the world's electricity. According to the International Atomic Energy Agency, there are over 440 nuclear power plants in operation today, mostly light water reactors, with the most dominant types being pressurized water reactors (PWRs), boiling water reactors (BWRs) and VVER reactors (a Russian equivalent of PWRs).

Nuclear power generators, which convert nuclear energy into electricity, are the largest consumers of products and services within the nuclear power industry. The product and service providers to these customers include both large vertically-integrated nuclear companies that provide a complete array of reactor services and niche providers. These services include reactor design, construction, servicing, and decommissioning; front-end nuclear fuel services (nuclear fuel materials procurement and processing; nuclear fuel design (a market of interest to us) and fuel fabrication); back-end nuclear fuel services (spent fuel management and reprocessing), transportation, and various other services.

Today the vast majority of commercial nuclear power plants around the world use uranium oxide fuel. This uranium oxide fuel is comprised of uranium enriched up to 5% by uranium-235, with the remaining 95% or more being uranium-238. During irradiation inside a reactor core, some of the uranium-238 isotopes capture a neutron and become plutonium-239, a long-lived fissionable element that can be used to make nuclear weapons. Each year, an average 1,000-megawatt PWR produces over 200 kilograms of reactor-grade plutonium in its spent fuel. The plutonium-bearing spent fuel may be buried in a repository such as the facility being constructed by the U.S. Department of Energy facility at Yucca Mountain, Nevada, recycled so the plutonium is burned as nuclear fuel, or used to make nuclear weapons.

All of the above-mentioned options for the disposition of plutonium-bearing spent fuel raise environmental, safety, and/or non-proliferation issues. One recycling technology, used by a small number of nuclear power plants, is mixed oxide (MOX) fuel, a mixture of uranium oxide and recovered plutonium oxide. MOX fuel has never been used in Russian VVER reactors and, due to its higher cost, MOX fuel has never caught on among most nuclear power generators, which prefer the once through fuel cycle, with spent fuel being stored at a high-level waste repository. MOX fuel, in general, occupies only a portion of the reactor core, with the remaining portion containing conventional uranium fuel assemblies which generate weapons-usable plutonium in spent fuel.

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## **Our Nuclear Energy Consulting Services**

### **The Nature of Our Consulting Services**

We are primarily engaged in the business of assisting commercial and governmental entities with developing and expanding their nuclear industry capabilities and infrastructure. We provide integrated strategic advice across a range of expertise areas including e.g., nuclear reactor procurement & deployment, reactor & fuel technology, international relations and regulatory affairs.

Due to the relatively limited growth in the nuclear energy industry during the 1980 s and 1990 s, and corresponding limited recruitment into the industry, the cadre of engineers, managers and other nuclear energy industry experts is aging. In the nuclear renaissance, we believe that the industry will be challenged in acquiring and retaining sufficient qualified expertise. Moreover, in countries studying new nuclear energy programs, the number of qualified nuclear energy personnel is very limited, and we believe that those countries will need to rely on significant support from non-domestic service providers and experts to ensure success in those programs.

Our emergence in the field of nuclear energy consulting is in direct response to the need for independent assessments and highly qualified technical consulting services from countries looking to establish nuclear energy programs, whereby providing a blueprint for safe, clean, efficient and cost-effective non-proliferative nuclear power. We offer full-scope strategic planning and advisory services for new and growing existing markets. Further, we only engage with commercial entities and governments that are dedicated to non-proliferative and transparent nuclear programs.

Our consulting services are expert and relationship based, with particular emphasis on top-of-mind issues of key decision makers in senior positions within governments or companies as well as focus on overall management of nuclear energy programs.

Through the period covered by this report, we have conducted only limited consulting operations. We were retained by a foreign government-owned entity on November 30, 2007 to provide consulting services designed to produce a roadmap that would constitute the first phase of a feasibility study for a prospective program to deploy civilian nuclear power plants within the foreign country, whereby acting as strategic advisor for the entity responsible for managing nuclear energy related activities in the country. We currently derive our revenues from fixed professional fee billings where we are paid a fixed amount for our services to this government-owned client. Expenses, which to date have been capped at 20% of professional fees, are billed separately. In future consulting engagements, including services for other clients, we expect that revenues may be derived from fixed professional fee agreements or from fees generated through hourly rates billed on a time and expense basis.

Our most significant expense related to our consulting business is the cost of services before reimbursable expenses, which generally relates to costs associated with generating revenues, and includes employee payroll expenses and

benefits, contractor compensation, vendor compensation, marketing expenses and direct costs of training and recruiting the consulting staff. Consultant compensation consists of salaries, incentive compensation and benefits. As revenues are generated from services performed by our permanent staff and contractors, our success depends on attracting, retaining and motivating talented, creative and experienced professionals at all levels. We seek to retain personnel by offering competitive packages of base and, as applicable, incentive compensation, equity ownership and other benefits. We also maintain the practice of retaining certain consultants on a per-engagement basis, which provides flexibility in adjusting professional personnel levels in response to changes in demand for our professional services.

## **Competition in Nuclear Industry Consulting**

In general, the market for nuclear industry consulting services is competitive, fragmented and subject to rapid change. The market includes a large number of participants with a variety of skills and industry expertise, including local, regional, national and international firms that specialize in political assessment, nuclear technology or program implementation. Some of these companies are global in scope and have greater personnel, financial, technical, and marketing resources than we do. The larger companies offering similar services as

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we do typically are also active in the delivery of nuclear power plant hardware and/or provision of engineering design services. However, we believe that our independence, experience, expertise, reputation and segment focus, enable us to compete effectively in this marketplace.

## **Our Nuclear Fuel Technology Business**

### **The Nature of Our Proprietary Technology Development Activities**

For over a decade we have been engaged in the development of proprietary nuclear fuel designs which we intend ultimately to introduce for sale into three markets: (1) nuclear fuel designs for use in commercial nuclear power plants, (2) nuclear fuel designs for reactor-grade plutonium disposition, and (3) nuclear fuel designs for weapons-grade plutonium disposition. Our development efforts to date have primarily focused on applications for use in existing or future VVER-1000 light water reactors. We have also been conducting research and development relating to a variant of these nuclear fuel designs for use in existing and future Western pressurized water reactors (PWR).

Our future customers may include nuclear fuel fabricators and/or nuclear power plants, and/or the U.S. or foreign governments.

To date, our operations have been devoted primarily to the development and demonstration of our nuclear fuel designs, developing strategic relationships within and outside of the nuclear power industry, securing political and financial support from the U.S. and Russian governments, the filing of patent applications and related administrative functions.

While we do not currently have any direct revenues from our research and development activities regarding our proprietary nuclear fuel technology, and expect that we will not generate licensing revenues from this business for several years, until our fuel designs can be fully tested and demonstrated and we obtain the proper approvals to use our nuclear fuel designs in nuclear reactors, we are utilizing certain common corporate capabilities in both our

technology and consulting businesses. We believe we can leverage our general nuclear technology, business and regulatory expertise and industry relationships, to optimize our technology development plans as well as create integrated advisory services with the highest levels of expertise and experience in the nuclear power industry. Additionally, our knowledge of and credibility in addressing proliferation related issues that we have developed over many years, benefit our new consulting business. Moreover, while our advisory services are technology-agnostic, we believe that through increasing familiarity with our company in the industry and within new markets, we will be able to improve the awareness of our proliferation-resistant fuel designs as a viable alternative to traditional uranium based fuels.

## **Nuclear Fuel Development and Qualification Process**

We have been developing, testing and qualifying our nuclear fuel designs in accordance with established industry processes and standard practices associated with new nuclear fuel development programs. Typically, new fuel designs go through three major development phases: (1) Conceptual design, (2) Preliminary design, and (3) Final design.

From inception until late 1990s, we were primarily working on the conceptual design of our seed-and-blanket, or SBU, fuel technology for application in VVER-1000 reactors, or VVER SBU fuel. From late 1990s, we have been largely engaged in activities relating to the preliminary design of VVER SBU fuel.

As announced earlier, over the next several years we intend to focus our development efforts primarily on the final design of VVER SBU fuel. Our recently updated development plan includes additional samples of our fuel that will undergo irradiation testing with the aim of further increasing the redundancy of the testing activities. We expect to have the final design of the VVER SBU fuel completed within three to four years, subject to successful conclusion of agreements with our development partners in 2008 and 2009 for the full scope of work relating to final design activities. In parallel, we, together with our development partners, expect to continue working with regulatory authorities to obtain regulatory clearance for insertion of several lead test assemblies, or LTAs, into an operating VVER-1000 reactor for final demonstration of our VVER SBU fuel technology.

The LTA testing in an operating VVER-1000 reactor is expected to extend over for approximately 3 years (three fuel cycles for a VVER-1000 reactor operating with standard uranium oxide fuel; these 3 years will be

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three fuel cycles for the seed and one-third of a expected life of the blanket in a VVER-1000 reactor). After three cycles of operation, one or more irradiated seed and blanket fuel assemblies will undergo post-irradiation examination to collect the data on the results of LTA testing up to that point. Typically, post-irradiation examination studies take a year to complete (which includes time necessary for the cooling of irradiated fuel assemblies in a spent fuel pool before the post-irradiation examination can commence). Once the post-irradiation examination data from LTAs confirm VVER SBU fuel performance within acceptable safety limits, we expect to be able to transition to partial cores, followed by a full core and then multiple VVER-1000 reactor cores, subject to regulatory approval.

In addition to the VVER SBU fuel, we have also performed initial research and testing of a similar seed-and-blanket fuel technology for application in Western pressurized water reactors, or PWR SBU fuel. In our work on the PWR SBU fuel design, we largely benefit from the results of similar work already completed on the VVER SBU fuel and the vast experience we have gained from the design of our proprietary seed-and-blanket fuel technology over the years. As a result of these past and anticipated future synergies, we believe we will be able to accelerate the PWR SBU fuel development timeline compared to the overall VVER SBU fuel development cycle.



To-date, we have spent approximately \$5 million on research and development. Currently, we estimate that we will require about \$12 - 15 million in R&D investment over the next three to five years to complete the final design of our VVER SBU fuel.

## Competition in the Nuclear Fuel Design and Fabrication Area

There are four groups of companies that collectively fabricate a large majority of the fuel used in the world's commercial nuclear power plants: Areva, Westinghouse Electric Company, General Electric, and AtomStroyExport/TVEL. We currently do not plan to fabricate fuel for reactors. To the extent that the four companies mentioned above currently own and may in the future develop new nuclear fuel designs that can be used in the same types of reactors as those targeted by us, they can also be viewed as competitors. To date, we have not entered into formal agreements with any fuel fabricators regarding the potential licensing of our fuel technology to them.

We face different competition for each of our three markets for our proprietary nuclear fuel designs:

### Thorium/Uranium Fuel

We believe that our thorium/uranium nuclear fuel will offer significant advantages over conventional uranium fuel, including: (1) enhanced proliferation resistance of spent fuel, (2) improved reactor safety, (3) significantly reduced volume, weight and long-term radio-toxicity of spent fuel, and (4) cost savings in the back-end operations (spent fuel management) of the nuclear fuel cycle. We expect the front-end costs (cost of fresh thorium/uranium fuel) to be cost competitive with conventional uranium fuel. At the same time, the back-end (waste handling) costs are expected to be less than that for conventional uranium fuel due to significantly reduced volume and weight of spent thorium/uranium fuel.

The primary barrier to industry adoption of our fuel designs is that the entire industry infrastructure is based on uranium fuel with enrichments of 3 - 5%. Our designs require plutonium or more highly enriched uranium (up to 20%). Although the designs can be accommodated by most existing reactors, there are no existing fuel fabrication facilities licensed and capable of fabricating commercial lots of fuel containing the more highly enriched uranium. There are also transportation and logistics issues with the fuel that must be addressed.

The primary marketing strategy that we intend to pursue with respect to our thorium/uranium fuel product is to form an alliance or alliances with existing nuclear fuel fabricators, to which we would license our intellectual property rights to our thorium/uranium nuclear fuel. An alternative marketing strategy that we may pursue is to form an international consortium that may involve government and/or private sector entities to build green field nuclear fuel fabrication facilities. In that case, we would license our intellectual property rights to the thorium/uranium fuel to the consortium that would own and/or operate the new nuclear fuel fabrication facilities.

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### **Thorium/Reactor-Grade Plutonium Disposing Fuel**

This fuel technology is designed to provide an effective means to dispose of separated reactor-grade plutonium. As of 2004, there were 274 metric tons of separated reactor-grade plutonium (equivalent of 15,000 - 20,000 nuclear weapons) stored at various locations around the world. According to *No Future Plutonium?* by Spiez Laboratory, The Swiss NBC Defense Establishment, dated November 2002, another 1,400 metric tons of this potentially weapons useable material are embedded in spent fuel and stored at hundreds of commercial reactor sites around the globe.

We believe that our thorium/reactor-grade plutonium disposing fuel technology may offer a more economically viable way to dispose of separated reactor-grade plutonium than alternative fuel technologies, such as the mixed oxide (MOX) fuel, or long-term storage alternatives. Currently, some nuclear reactor operators, primarily in the European Union and Japan, have their spent fuel reprocessed and re-used in nuclear reactors as MOX fuel. We expect that our thorium/reactor grade plutonium disposing fuel will be less expensive compared to MOX or conventional uranium fuel, assuming that the separated reactor-grade plutonium is available to us at no cost.

The cost of reprocessing spent fuel from reactors and converting it into reactor fuel is typically more expensive than producing new fuel from uranium. Spent reactor fuel has been reprocessed as a method of reducing the amount of nuclear waste in certain locations, particularly in Europe, Russia, and Japan. This reprocessing has resulted in stockpiles of plutonium that has been extracted from the spent reactor fuel. The governments of these countries generally regard this stockpiled plutonium as a liability because they pay to safeguard and secure the plutonium. In these locations, the government may be willing to provide the plutonium free of charge if it can be used to generate electricity in a way that eliminates the plutonium stockpiles. If plutonium can be provided without additional cost, which we believe may be likely, and there is no current charge for the reprocessing that occurred in the past, then our fuel could be substantially less expensive than MOX fuel. If there is a cost for plutonium, then our fuel could still cost much less to produce than MOX, so long as the price charged for plutonium used in our fuel were not substantially higher than the cost of plutonium used in MOX fuel.

The long-term storage alternative faces substantial opposition from the communities chosen as sites, such as Yucca Mountain in Nevada, on grounds of environmental and safety risks. Also, the long life of plutonium means that the stored spent fuel will be a proliferation risk for centuries. The United States and many countries have been committed to the long-term storage alternative for a number of years. In early 2006, in announcing its Global Nuclear Energy Partnership (GNEP), the United States announced that it would work with other countries to develop proliferation-resistant environmentally compatible technologies and processes to promote recycling and reduce the need for storage in long term repositories.

We believe that benefits offered by thorium/reactor-grade plutonium fuel designs include enhanced proliferation resistance, improved reactor safety, and significantly reduced volume, weight and long-term radio-toxicity of spent fuel.

Our marketing strategy with respect to thorium/reactor-grade plutonium disposing fuel is to educate reactor operators, who presently own stockpiles of separated reactor-grade plutonium and are forced to pay ongoing plutonium storage fees, about the benefits offered by this fuel technology to convince them to recycle these plutonium stockpiles in their reactors using thorium/reactor-grade plutonium disposing fuel. This strategy is attuned with GNEP and the strategies of countries that wish to recycle but are not committed to MOX technology.

### **Thorium/Weapons-Grade Plutonium Disposing Fuel**

This fuel design (the Radkowsky Thorium Plutonium Incinerator, or RTPI) was developed to meet the needs of the U.S.-Russia plutonium disposition program. It is the policy of those countries to eliminate their extensive stockpiles of surplus weapons grade plutonium. In 2000, the U.S. and Russia signed a bi-lateral agreement, committing each country to dispose of 34 metric tons of surplus weapons-grade plutonium.

We believe that our thorium/weapons-grade plutonium disposing fuel could offer a faster, cheaper, and more effective means than other available technologies to dispose of excess quantities of weapons-grade plutonium by burning it using the RTPI fuel design in existing VVER nuclear power plants in Russia (a

similar design may be usable in the U.S. and other Western countries). We plan to continue educating government officials and key decision-makers on the benefits of this technology for the plutonium disposition.

## **Licensing Revenue from Our Fuel Technology**

We plan to license our nuclear fuel designs to one or more of the above nuclear fuel fabricators that have long-term supply contracts with nuclear utilities. Typically, firm commitments for fuel reloads are made by utilities 2 – 3 years before actual deliveries of fresh fuel to the nuclear power plant are made by the supplier. As a result, we will have to secure a commitment from a nuclear utility for a first fuel reload using our proprietary fuel at least 2 – 3 years prior to transitioning to partial cores. Depending on the terms of the licensing arrangement with the fuel fabricator, we may be able to generate early licensing revenue that may include technology transfer fees and other upfront fees paid by the licensee to the Company before a first partial core is fabricated and supplied to the nuclear power plant, in addition to ongoing annual licensing fees paid by the licensee on a per fuel assembly or per reactor basis.

## **Sources and Availability of Raw Materials**

We are a fuel designer that intends to license its technology to fuel fabricators. Accordingly, we do not plan to utilize any raw materials in the conduct of our operations. However, the fuel fabricators which potentially will license our fuel designs in the future will need thorium and uranium to fabricate thorium-based fuels.

All of our nuclear fuel designs require both thorium and uranium in the oxide form which are the main raw materials for blanket rods. The seed rods can contain either enriched uranium or plutonium metals mixed with zirconium.

The current demand for thorium is very low. Thorium is sometimes used in government flares, camping lantern wicks and in other products in small quantities. If thorium based fuels become commercially accepted in the nuclear power industry, there would be a significant increase in the demand for thorium. According to the International Atomic Energy Agency, or IAEA, thorium is over three times more naturally abundant than uranium and is found in large quantities in monazite sands in many countries, including, Australia, India, the United States of America, and China. Several companies that process monazite sands to extract rare earth minerals for use in other markets have stockpiled thorium as a byproduct with no significant current market. Currently, there is no large supplier of thorium.

Uranium and zirconium are available to the fuel fabricators from various suppliers at market driven prices. Weapons-grade plutonium, which would be used to fabricate Thorium Power's weapons grade plutonium disposing fuel, is generally unavailable. However, governments that have developed nuclear weapons capabilities could use our fuel designs to dispose of their excess weapons-grade plutonium. Reactor-grade plutonium is available in Europe, Russia and Japan from reprocessed spent fuel. The transfer and use of reactor-grade plutonium is highly regulated.

Nuclear fuel generally works as a tolling operation. Rather than ordering assembled nuclear fuel, reactor operators separately source (1) uranium, (2) services to convert the uranium into uranium hexafluoride gas that is capable of being enriched, (3) uranium enrichment services, and then (4) pay a nuclear fuel fabricating company to fabricate the enriched uranium into nuclear fuel. We expect that when its fuel is ordered in the future by a reactor operator from a nuclear fuel fabrication company, following the standard nuclear power industry model, the reactor operator will need to provide the thorium materials that the nuclear fuel fabricating company will use to fabricate the nuclear fuel. It will then be necessary for the nuclear reactor operator to obtain thorium material on a timely basis and on acceptable terms. We believe that reactor operators will readily be able to obtain thorium on a timely basis and on acceptable terms, given that thorium is at least three times as abundant as uranium in the earth, and that the extraction method for thorium is well established and is used for extracting thorium for various small-scale industrial applications.

## Dependence on Government Support and Cooperation

We believe that deployment and commercialization of the thorium/uranium and reactor-grade plutonium disposing fuel designs can be largely completed without direct government support. These fuel designs are more dependent on interest in these fuels within the commercial nuclear power industry.

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Successful development and deployment of our thorium/weapons-grade plutonium disposing fuel technology, however, is dependent upon government support. This fuel design is being developed for application in the U.S.-Russia plutonium disposition mission that is a government program run by the National Nuclear Security Administration (NNSA) of the U.S. Department of Energy (DOE) and its Russian government counterparts pursuant to the plutonium disposition agreement the United States and Russia entered into in 2000. The total cost to carry out the plutonium disposition mission will be in the billions of dollars. To date, the plutonium disposition program in the United States and Russia has been funded primarily by the U.S. government. The G-8 countries have made funding commitments for approximately \$800 million toward the Russian part of the plutonium disposition program but have not yet provided the funds.

In the fiscal year 2004 federal budget cycle, the U.S. Congress appropriated \$4 million for testing and evaluation of our thorium/weapons-grade plutonium disposing fuel technology for the plutonium disposition mission in Russia. Additional funding support is required from the U.S. and other governments to complete the development, testing, demonstration and deployment of our thorium/weapons-grade plutonium disposing fuel.

## Intellectual Property

Our nuclear fuel technologies are protected by several U.S. and international patents. Our current patent portfolio is comprised of the following patents:

### U.S. patents:

Patent No. 6,026,136, a seed-blanket unit fuel assembly for a nuclear reactor

Patent No. 5,949,837, a nuclear reactor having a core including a plurality of seed-blanket units

Patent No. 5,864,593, a method for operating a nuclear reactor core comprised of at least first and second groups of seed-blanket units

Patent No. 5,737,375, a nuclear reactor having a core including a plurality of seed-blanket units

The U.S. patents expire August 16, 2014.

### International patents:

Russia Patent No. 2,176,826

Russia Patent No. 2,222,837

South Korea Patent No. 301,339

South Korea Patent No. 336,214

China Patent No. ZL 96196267.4

The international patents expire August 16, 2014.

On December 26, 2007, the Company filed an international patent application under the Patent Cooperation Treaty (the PCT). The PCT application covers key inventions relating to the Company's seed-and-blanket fuel technology that

have been developed since the patents listed above were issued. The PCT patent application provides patent protection to the Company for 30 months from the date of filing in all countries that are parties to the PCT (most countries, except for a few in the Middle East and Latin America) and allows the Company to seek patent protection in individual countries during that time period. Once granted, the new patents would provide patent protection of the Company's fuel technology in each respective country until 2027.

Presently, we are executing a strategy aimed at further expanding our intellectual property portfolio.

## Regulation

No safety regulatory approval is required to design thorium-based nuclear fuels, although certain technology transfers may be subject to national and international export controls. However, the testing, fabrication and use of nuclear fuels by our future partners and licensees are heavily regulated. The Kurchatov Institute

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and other locations where our fuel designs may be initially tested require governmental approvals from the host country's nuclear regulatory authority to test fuel in research reactors and other nuclear testing facilities. The Kurchatov Institute has obtained such approvals from the Russian nuclear regulatory authorities for the ongoing tests of our fuel designs that are taking place at Russian facilities. Nuclear fuel fabricators, which will potentially fabricate fuel using our technology under licenses from us, are similarly regulated. Nuclear power plants that may utilize the fuel produced by these fuel fabricators require specific licenses relating to possession and use of nuclear materials as well as numerous other governmental approvals for the ownership and operation of nuclear power plants.

## Employees

As of December 31, 2007, we had 8 employees, all of whom were full-time employees. We believe that our relationship with our employees is satisfactory.

We use consultants with specific skills to assist with various business functions including evaluation, finance, due diligence, acquisition initiatives, corporate governance, business development, research and development and government relations.

## Item 1A. Risk Factors.

### Business Risks

#### **Our limited operating history makes it difficult to judge our prospects.**

We are a development stage company. We have only recently commenced the provision of nuclear consulting services and currently have only one significant client in this area of our business. Similarly, our fuel design patents and technology have not been commercially used and we have not received any royalty or sales revenue. We are subject to the risks, expenses and problems frequently encountered by companies in the early stages of development.

**Our inability to retain highly skilled consulting professionals could have a material adverse effect on our success.**

We rely heavily on our contractor staff and management team. Our success depends, in large part, on our ability to hire, retain, develop and motivate highly skilled professionals. Competition for these skilled professionals is intense and our inability to hire, retain and motivate adequate numbers of consultants and managers could have a serious effect on our ability to meet client needs. A loss of a significant number of our employees could have a serious negative effect on us.

**Our future profitability will suffer if we are not able to maintain current pricing and utilization rates.**

Our revenue, and thereby our profitability, will be largely based on the bill rates charged to clients and the number of hours our professionals will work on client engagements, which we define as the utilization of our professionals. Accordingly, if we are not able to maintain the pricing for our services or an appropriate utilization rate for our professionals, revenues, project profit margins and our future profitability will suffer. Bill rates and utilization rates are affected by a number of factors, including:

our ability to predict future demand for services and maintain the appropriate headcount without significant underutilized personnel,  
our ability to transition employees from completed projects to new engagements,  
our clients' perceptions of our ability to add value through our services,  
our competitors' pricing of services,  
the market demand for our services,  
our ability to manage our human capital resources, and  
our ability to manage significantly larger and more diverse workforces as we increase the number of our professionals and execute our growth strategies.

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**We expect that our future client engagements will generally be short term in nature, less than one year, and may be terminated. Our inability to attract business from new or then existing clients could have a material adverse effect on us.**

We might not meet our current or future commitments if we do not continually secure new engagements.

We expect that many of our future client engagement agreements will be terminable by our clients with little or no notice and without penalty. Some of our work will involve multiple engagements or stages. In those engagements, there is a risk that a client may choose not to retain us for additional stages of an engagement or that a client will cancel or delay additional planned engagements. We expect that our engagements will usually be relatively short term in comparison to our office-related expenses and other infrastructure commitments.

Additionally, the above mentioned factors limit our ability to predict future revenues and required professional staffing, which can impact our financial results.

**Unsuccessful future client engagements could result in damage to our professional reputation or legal liability which could have a material adverse effect on us.**

Our professional reputation and that of our personnel is critical to our ability to successfully compete for new client engagements and attract or retain professionals. Any factors that damage our professional reputation could have a material adverse effect on our business.

In addition, any client engagements that we obtain will be subject to the risk of legal liability. Any public assertion or litigation alleging that our services were negligent or that we breached any of our obligations to a client could expose us to significant legal liabilities, could distract our management and could damage our reputation. We carry professional liability insurance, but our insurance may not cover every type of claim or liability that could potentially arise from our engagements. In addition, the limits of our insurance coverage may not be enough to cover a particular claim or a group of claims, and the costs of defense.

**Our fuel designs have never been tested in an existing commercial reactor and actual fuel performance, as well as the willingness of commercial reactor operators and fuel fabricators to adopt a new fuel design, is uncertain.**

Nuclear power research and development entails significant technological risk. New designs must be fabricated, tested and licensed before market opportunities will exist. Our fuel designs are still in the research and development stage and while irradiation testing in a test reactor in Russia (which mimics the operating characteristics of an actual commercial reactor) and thermal-hydraulic experiments have been ongoing for several years, the fuel technology is yet to be demonstrated in an existing commercial reactor. We will not be certain about the ability of the fuel we design to perform in actual commercial reactors until we are able to demonstrate our fuel designs. We will also have to establish a relationship with a fuel fabricator to actually produce fuel using our designs. If our fuel designs do not perform as anticipated in commercial use, we will not realize revenues from licensing or other use of our fuel designs.

In addition, there are several technical challenges involved in commercializing thorium based fuels. Some of the technical challenges with our technology identified by the experts at Russian Research Centre Kurchatov Institute, an independent contractor that is closely affiliated with the government of the Russian Federation, Westinghouse Electric Company LLC, and the International Atomic Energy Agency ( IAEA ), include:

*Fuel Fabrication:* The relatively high melting point of thorium oxide will require fuel pellet manufacturing techniques that are different from those currently used for uranium pellets.

*Fuel Fabrication:* Our metallic seed fuel rod designs are greater than 3 meters long compared to conventional Russian metallic icebreaker fuel rods that we understand are approximately 1 meter long. The longer rods will require new equipment and experience making longer extrusions.

*Fuel Design:* Our seed-and-blanket fuel assembly design has a detachable central part which is not in conventional fuel designs.

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*Fuel Design:* Some of our fuel designs include plutonium-zirconium fuel rods which will operate in a soluble boron environment. Current reactor operating experience is with uranium-zirconium fuel in a boron-free environment.

*Fuel Use:* Our fuel is expected to be capable of producing more gigawatt days per ton of fuel than is allowed by current reactor licenses, so to gain full economic benefits, reactor operators will have to obtain regulatory approval.

*Fuel Use:* The thorium-uranium oxide blanket section in our fuels is expected to produce energy economically for up to 9 years in the reactor core. Conventional uranium fuel demonstrates the cladding can remain corrosion-free for up to 5 years. Testing is needed to prove corrosion resistance for the longer residence time.

*Fuel Reprocessing:* The IAEA has identified a number of ways that reprocessing spent thorium fuel will require technologies different from existing uranium fuel reprocessing. Management's current marketing plans do not assume or depend on the ability to reprocess and recycle spent fuel. Management expects spent thorium fuel will go into long term storage. This is current U.S. government policy for all spent commercial nuclear fuel.

**Our fuel designs differ from fuels currently licensed and used by commercial nuclear power plants. As a result, the licensing and approval process for our fuels may be delayed and made more costly, and industry acceptance of our fuels may be hampered.**

Our fuel designs differ significantly in some aspects from the fuel licensed and used today by commercial nuclear power plants. Some of the differences between our fuels and those currently used include:

use of thorium and uranium oxide mix instead of only uranium oxide,  
higher uranium enrichment level,  
seed-and blanket fuel assembly design integrating thorium and uranium,  
high burn-up levels of seed and blanket,  
use of metallic seed rods,  
longer residence time of the blanket in the reactor, and

the ability of some of our fuels to dispose of reactor-grade plutonium and/or weapons-grade plutonium through the use of new fuel designs and in reactors that have never used plutonium-bearing fresh fuels.

These differences will likely result in more prolonged and extensive review by the U.S. Nuclear Regulatory Commission and other nuclear licensing authorities and customers. Also, the nuclear industry may be hesitant to switch to another fuel with little or no history of successful commercial use because of the need for additional engineering and testing with no guarantee of success as well as investor reluctance to invest in a new technology when viable existing technologies are available.

**Our plans to develop our thorium/weapons-grade plutonium disposing fuel are dependent upon U.S. Government funding and support. Without such support, we are unlikely to be able to serve this market.**

Our thorium/weapons-grade plutonium disposing fuel design is highly dependent upon U.S. and perhaps other government funding and acceptance as a technology appropriate to eliminate U.S. and Russian stockpiles of surplus weapons-grade plutonium. In the past, we have faced resistance from some offices within the U.S. Department of Energy (DOE) that support other alternative plutonium disposing technology, particularly mixed plutonium uranium oxide (MOX) fuel designs. The Company has spent a significant amount of funds to gain commercial and market acceptance for its fuel designs.

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**Our plans to develop our thorium based fuel designs depend on us acquiring rights to the designs, processes and methodologies that are used or may be used or useful in our business in the future. If we are unable to obtain such rights on reasonable terms in the future, our ability to exploit our intellectual**



### **property may be limited.**

Dr. Alvin Radkowsky invented the thorium fuel technology that we are developing. Upon founding Thorium Power in 1992, Dr. Radkowsky assigned all of his rights in the intellectual property relating to such fuel designs to Thorium Power, Inc. Thorium Power, Inc. then filed patent applications in the United States and other countries and the patents were issued and are held solely by our Company. We are currently conducting fuel assembly design work in Russia through Russian Research Centre Kurchatov Institute, an independent contractor that is closely affiliated with the government of the Russian Federation and other nuclear institutes. We do not currently have all of the necessary licensing or other rights to acquire or utilize certain designs, methodologies or processes required for fuel assemblies.

If we desire to utilize such processes or methodologies in the future, we must obtain a license or other right to use such technologies from the Kurchatov Institute and other Russian entities that performed work on our project. If we are unable to obtain such a license or other right on terms that the Kurchatov Institute or other Russian entities deem to be reasonable, then we may not be able to fully exploit our intellectual property and may be hindered in the sale of products and services.

### **We rely upon certain members of our senior management, including Seth Grae, and the loss of Mr. Grae or any of our senior management would have an adverse effect on Thorium Power.**

Our success depends upon certain members of our senior management, including Seth Grae. Mr. Grae's knowledge of the nuclear power industry, his network of key contacts within that industry and in governments and, in particular, his expertise in the potential markets for the company's technologies, is critical to the implementation of our business model. Mr. Grae is likely to be a significant factor in our future growth and success. The loss of the service of Mr. Grae would have a material adverse effect on our Company. We do not have key man insurance policies relating to Seth Grae or any other key individuals and do not anticipate obtaining any such insurance.

### **The price of fossil fuels or uranium may fall, which would reduce the interest in thorium fuel by reducing economic advantages of utilizing thorium based fuels and adversely affect the market prospects for our fuel designs.**

Coal, uranium and crude oil prices are currently at historically high levels. Management believes the high cost of these energy sources has resulted in increased interest in other sources of energy such as thorium. If prices of traditional energy sources fall, then the demand that the company expects for thorium based fuels may not materialize. A decrease in demand for thorium based fuels would negatively affect our future operating results.

### **Our research operations are conducted primarily in Russia, making them subject to political uncertainties relating to Russia and U.S.-Russia relations.**

Substantially all of our present research activities are in Russia. Our research operations are subject to various political risks and uncertainties inherent in the country of Russia. If U.S.-Russia relations deteriorate, the Russian government may decide to scale back or even cease completely its cooperation with the United States on various international projects, including in the plutonium disposition program and nuclear power technology development programs. If this happened, our research and development program in Russia could be scaled back or shut down, which could have a significant adverse impact on our ability to execute our business model. Furthermore, the Russian institutes engaged in the Thorium Power project are highly regulated and, in many instances, are controlled by the Russian government. The Russian government could decide that the nuclear scientists engaged in our project in Russia or testing facilities employed in this project should be redirected to other high priority national projects in the nuclear sector which could lead to delays or have other significant adverse impact on our project. Finally, in 2007, the Russian Agency for

Our plans to develop our thorium based fuel designs depend on us acquiring rights to the designs, processes and m

Atomic Energy (Rosatom), the main Russian government agency overseeing and regulating Russia's nuclear complex, initiated a major restructuring of Russia's nuclear power industry. As a result of this restructuring, some of the nuclear research institutes are being merged into a new vertically integrated holding company AtomEnergProm

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(AEP). Originally, the restructuring effort was expected to be completed by the end of 2007 but the schedule has slipped and it is now likely to continue throughout a large part of 2008. As part of restructuring, some nuclear research institutes have seen, or expect to see, new management come in. The ongoing restructuring process within Russia's nuclear power industry may add to timelines required to negotiate and enter into acceptable agreements for the full scope of work that needs to be completed over the next several years in preparation for demonstration of our fuel technology in a full-size commercial reactor and adds to the risk of uncertainty associated with the projected timelines for the start of such demonstration activities.

### **We serve the nuclear power industry, which is highly regulated.**

The nuclear power industry is a highly regulated industry. We intend to license our fuel designs to the nuclear fuel fabricators, which would, in turn, sell the thorium-based nuclear fuel that would be fabricated using our intellectual property to nuclear generating companies. All nuclear companies are subject to the jurisdiction of the United States Nuclear Regulatory Commission, or its foreign equivalents, with respect to the operation of nuclear reactors, fuel cycle facilities and handling of nuclear materials and technologies. The U.S. Nuclear Regulatory Commission, and its foreign equivalents, subject nuclear facilities to continuing review and regulation covering, among other things, operations, maintenance, emergency planning, security and environmental and radiological aspects of those facilities. These nuclear regulatory bodies may modify, suspend or revoke operating licenses and impose civil penalties for failure to comply with applicable laws and regulations such as the Atomic Energy Act, the regulations under such Act or the terms of such licenses. Possession and use of nuclear materials, including thorium-based nuclear fuel, would require the approval of the United States Nuclear Regulatory Commission or its counterparts around the world and would be subject to monitoring by international agencies.

### **Public opposition to nuclear power could increase.**

Successful execution of our business model is dependent upon public support for nuclear power in the United States and other countries. Nuclear power faces strong opposition from certain competitive energy sources, individuals and organizations. The occurrence of another major, Chernobyl-like, nuclear accident could have a significant adverse effect on public opinion about nuclear power and the favorable regulatory climate needed to introduce new nuclear technologies. Strong public opposition could hinder the construction of new nuclear power plants and lead to early shut-down of the existing nuclear power plants. Furthermore, nuclear fuel fabrication and the use of new nuclear fuels in reactors must be licensed by the United States Nuclear Regulatory Commission and equivalent foreign governmental authorities. The licensing process includes public hearings in which opponents of the use of nuclear power might be able to cause the issuance of required licenses to be delayed or denied. In fact, since the Chernobyl nuclear accident, no new nuclear power plant has been built and opened in the United States.

### **Modifications to existing nuclear fuel cycle infrastructure as well as reactors may prove too extensive or costly.**

The existing nuclear fuel cycle infrastructure is predominantly based on low-enrichment uranium oxide fuels. Introduction of thorium based fuel designs, which require relatively higher enriched uranium or plutonium as a source

Our research operations are conducted primarily in Russia, making them subject to political uncertainties relating to

of reactivity, into the existing nuclear fuel cycle supply chain would necessitate certain changes to procedures, processes and equipment used by existing nuclear fuel fabrication facilities and nuclear fuel transportation companies. In addition, our nuclear fuel designs rely on fabrication technologies that in certain material ways are different from the fabrication techniques presently utilized by existing commercial fuel fabricators. In particular, our metallic seed rods must be produced using a co-extrusion fabrication process that was developed in Russia. Presently, most commercial nuclear fuel is produced using a pellet fabrication technology, whereby uranium oxide is packed into small pellets that are stacked and sealed inside metallic tubes. The co-extrusion fabrication technology involves extrusion of a single-piece solid fuel rod from a metallic matrix containing uranium or plutonium seed fuel. While we understand that the co-extrusion fabrication process has been successfully used in Russia for decades to produce one-meter long metallic nuclear fuel rods used in nuclear reactors that propel Russian icebreakers, it must be upgraded and tested to demonstrate its ability to produce longer metallic rods (approximately 3.5-meters long for Russian VVER-1000 reactors) so that our seed fuel can be consistent with the standard length of fuel rods used in existing commercial reactors.

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Full-size metallic fuel rods have not yet been produced using this fabrication process, and there are no guarantees that this new fabrication technology will be successful.

Deployment of our nuclear fuel designs into existing commercial reactors may require modifications to existing equipment, refueling and fuel handling procedures, and other processes utilized at existing nuclear power plants. The costs of such modifications are difficult to ascertain. While one of our goals is to make our fuel designs as compatible as possible with the design of existing commercial reactors in order to minimize the extent and cost of modifications that may be required, we may not be able to achieve compatibility sufficient to reduce the extent and costs of required modifications enough to make our fuel designs economical for reactor operations.

### **Our nuclear fuel process is dependent on outside suppliers of nuclear and other materials.**

Production of fuel assemblies using our nuclear fuel designs is dependent on the ability of fuel fabricators to obtain supplies of thorium oxide for the blanket component of our fuel assembly design. Fabricators will also need to obtain metal for components, particularly zirconium. These materials are regulated and can be difficult to obtain or may have unfavorable pricing terms. The inability of fabricators to obtain these materials could have a material adverse effect on their ability to market fuel based on our technology.

### **We may be unable to protect our intellectual property, particularly in light of Russian intellectual property laws.**

Intellectual property rights are evolving in Russia, trending towards international norms, but are by no means fully developed. We work closely with the Kurchatov Institute and other Russian institutes to develop some of our intellectual property and so some of our intellectual property rights derive, or are affected by, Russian intellectual property laws. If the application of these laws to our intellectual property rights proves inadequate, then the Company may not be able to fully avail itself of our intellectual property and our business model may therefore be impeded.

Modifications to existing nuclear fuel cycle infrastructure as well as reactors may prove too extensive or costly.

## **We may not be able to receive or retain authorizations that may be required for us to sell our services or license our technology internationally.**

The sales and marketing of our services and technology internationally may also be subject to U.S. export controls administered by the U.S. Department of Energy and/or the U.S. Department of Commerce. U.S. governmental authorizations may be required before we can export our services or technology. These controls are subject to change and a number of U.S. governmental licensing policies. If authorizations are required and not granted, our international business plans could be materially affected. Furthermore, the export authorization process is often time-consuming. Violation of export control regulations could subject us to fines and other penalties, such as losing the ability to export for a period of years, which would limit our revenue growth opportunities and significantly hinder our attempts to expand our business internationally.

## **Financial Risks**

### **We continue to experience significant operating losses.**

We have never realized significant revenues or realized an operating profit from the development of our proprietary nuclear fuel designs. Our acquisition of Thorium Power, Inc. through the merger was accounted for as a reverse merger and Thorium Power, Inc. was treated as the accounting acquirer. Since Thorium Power, Inc.'s formation, its operating costs have exceeded its revenue in each year. Thorium Power, Inc. incurred a net loss of approximately \$11.5 million for the year ended December 31, 2007. Since Thorium Power, Inc.'s inception in 1992 to December 31, 2006 our operating costs have exceeded our revenues by approximately \$38.6 million, and we will continue to experience significant operating losses in the future until we can demonstrate, deploy and commercialize our proprietary nuclear fuel designs or pursue other growth opportunities in the nuclear power industry. We may not be able to obtain or maintain any level of revenues. If we are unsuccessful in these efforts, we may never achieve profitability.

### **Our liquidity and capital resources are uncertain.**

For the year ended December 31, 2007, we had a net loss of approximately \$11.5 million. At December 31, 2007, we had a working capital surplus of approximately \$3.4 million. Although our consulting

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revenues have improved our cash position (balance of \$6.7 million as of March 27, 2008 plus an additional expected cash infusion of \$4.3 million from a new consulting agreement effective as of March 17, 2008) we anticipate the need to raise additional capital by way of an offering of equity securities, an offering of debt securities, or by obtaining financing through a bank or other entity to fully finance our overhead and research and development expenditures in support of our business plan longer term. It is important to note that financing may not be available or we may not be able to obtain that financing on terms acceptable to us. If additional funds are raised through the issuance of equity securities, there may be a significant dilution in the value of our outstanding common stock.

## **Risks Relating to the Ownership of Our Securities**

**There may be volatility in our stock price, which could negatively affect investments, and stockholders may not be able to resell their shares at or above the value they originally purchased such shares.**

The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond its control, including:

quarterly variations in operating results;  
changes in financial estimates by securities analysts;  
changes in market valuations of other similar companies;  
announcements by us or its competitors of new products or of significant technical innovations, contracts, receipt of (or failure to obtain) government funding or support, acquisitions, strategic partnerships or joint ventures;  
additions or departures of key personnel;  
any deviations in net sales or in losses from levels expected by securities analysts or any reduction in political support from levels expected by securities analysts;  
future sales of common stock; and  
results of analyses of mining and resources assets.

In addition, the stock market has recently experienced extreme volatility that has often been unrelated to the performance of particular companies. These market fluctuations may cause our stock price to fall regardless of its performance.

**Because our securities trade on the OTC Bulletin Board, the ability to sell shares in the secondary market may be limited.**

The shares of our common stock are quoted on the NASD OTC Bulletin Board. Because our common stock currently trades on the OTC Bulletin Board, it is subject to the rules promulgated under the Securities Exchange Act of 1934, as amended, which impose additional sales practice requirements on broker-dealers that sell securities governed by these rules to persons other than established customers and accredited investors (generally, individuals with a net worth in excess of \$1,000,000 or annual individual income exceeding \$200,000 or \$300,000 jointly with their spouses). For such transactions, the broker-dealer must determine whether persons that are not established customers or accredited investors qualify under the rule for purchasing such securities and must receive that person's written consent to the transaction prior to sale. Consequently, these rules may adversely effect the ability of purchasers to sell our securities and otherwise affect the trading market in our securities.

Because our shares are deemed penny stocks, there may be difficulty selling them in the secondary trading market. The Securities and Exchange Commission has adopted regulations, which generally define a penny stock to be any equity security that has a market price (as defined in the regulations) less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. As our common stock falls within the definition of penny stock, these regulations require the delivery, prior to any transaction involving our common stock, of a risk disclosure schedule explaining the penny stock market and the risks associated with it. Disclosure is also required to be made about compensation payable to both the broker-dealer and the registered representative and current quotations for the securities. In addition, monthly

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statements are required to be sent disclosing recent price information for the penny stocks. The ability of broker/dealers to sell our common stock and the ability of stockholders to sell our common stock in the secondary

market would be limited. As a result, the market liquidity for our common stock would be severely and adversely affected.

## Item 2. Properties.

We are obligated to pay approximately \$15,000 per month for office rent and approximately another \$4,000 per month for other fees for the rented office space located at 8300 Greensboro Drive, Suite 800, McLean, Virginia 22102. The space is used by our executives and employees for administrative purposes. The term of the lease for our offices expires at the end of 2008 and is renewable for additional one-year terms.

## Item 3. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse affect on our business, financial condition or operating results.

## Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters that were submitted during the fourth quarter of 2007 to a vote of security holders.

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## PART II

### Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### Market Information

Our common stock is listed and traded on the OTC Bulletin Board. The following table sets forth the high and low closing per share sales prices of our common stock as reported on the OTC Bulletin Board for the quarterly fiscal periods presented below. The quotations were obtained from the OTC Bulletin Board website and reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Fiscal Year	Quarter Ending	High	Low
2007	December 31	\$ 0.42	\$ 0.16
	September 30	\$ 0.29	\$ 0.18
	June 30	\$ 0.31	\$ 0.24
	March 31	\$ 0.42	\$ 0.19
2006	December 31	\$ 0.30	\$ 0.30
	September 30	\$ 0.49	\$ 0.44

	June 30	\$ 0.74	\$ 0.43
	March 31	\$ 0.88	\$ 0.19
2005	December 31	\$ 0.28	\$ 0.14
	September 30	\$ 0.29	\$ 0.13
	June 30	\$ 0.22	\$ 0.18
	March 31	\$ 0.22	\$ 0.09

## Holders

As of March 19, our common stock was held by 268 stockholders of record.

## Reports to Stockholders

We plan to furnish our stockholders with an annual report for each fiscal year ending December 31 containing financial statements audited by our independent certified public accountants. Additionally, we may, in our sole discretion, issue unaudited quarterly or other interim reports to our stockholders when we deem appropriate. We intend to maintain compliance with the periodic reporting requirements of the Exchange Act.

## Dividends

We have never paid dividends. While any future dividends will be determined by our directors after consideration of the earnings, financial condition and other relevant factors, it is currently expected that available cash resources will be utilized in connection with our ongoing operations.

## Section 15(g) of the Securities Exchange Act of 1934 The Penny Stock Rules

Our shares are covered by Section 15(g) of the Securities Exchange Act of 1934, as amended that imposes additional sales practice requirements on broker/dealers who sell such securities to persons other than established customers and accredited investors (generally institutions with assets in excess of \$5,000,000 or individuals with net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouses). For transactions covered by this Section 15(g), the broker/dealer must make a special suitability determination for the purchase and have received the purchaser's written agreement to the transaction prior to the sale. Consequently, Section 15(g) may affect the ability of broker/dealers to sell our securities and also may affect your ability to sell your shares in the secondary market.

Section 15(g) also imposes additional sales practice requirements on broker/dealers who sell penny securities. These rules require a one page summary of certain essential items. The items include the risk of investing in penny stocks in both public offerings and secondary marketing; terms important to an understanding of the function of the penny stock market, such as bid and offer quotes, a dealers spread and broker/dealer compensation; the broker/dealer compensation, the broker/dealers duties to its customers,

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including the disclosures required by any other penny stock disclosure rules; the customers rights and remedies in causes of fraud in penny stock transactions; and, the NASD's toll free telephone number and the central number of the North American Administrators Association, for information on the disciplinary history of broker/dealers and their

associated persons.

## **Transfer Agent**

Our transfer agent and registrar for our common stock is Computershare Investor Services, 350 Indiana Street, Suite 800, Golden, Colorado, 80401. Its telephone number is 303.262.0600 and facsimile is 303.262.0632.

## **Recent Sales of Unregistered Securities**

Except for sales previously disclosed in quarterly reports on form 10-QSB or in a current report on Form 8-K filed by us with the Securities and Exchange Commission, we have not sold any securities without registration under the Securities Act of 1933. See Item 7 of Part II Financial Statements Note 7 Stockholders Equity for unregistered stock issuances by us for the year ended December 31, 2007.

## **Item 7. Management's Discussion and Analysis and Results of Operations.**

The following discussion should be read in conjunction with our financial statements, together with the notes to those statements, included elsewhere in this report. The following discussion contains forward-looking statements that involve risks, uncertainties, and assumptions such as statements of our plans, objectives, expectations, and intentions. Our actual results may differ materially from those discussed in these forward-looking statements because of the risks and uncertainties inherent in future events.

### **General Overview**

We are primarily a provider of nuclear energy consulting services and a developer of proprietary nuclear fuel designs. Through the period covered by this report, we have conducted only limited consulting operations. We were retained by a foreign government-owned entity on November 30, 2007 to provide consulting services designed to produce a roadmap that would constitute the first phase of a feasibility study for a prospective program to deploy civilian nuclear power plants within the foreign country, whereby acting as strategic advisor for the entity responsible for managing nuclear energy related activities in the country. We currently derive our revenues from fixed professional fee billings where we are paid a fixed amount for our services to this client. Expenses that are reimbursable, which to date have been capped at 20% of professional fees, are billed separately. In future engagements, including services for other clients, we expect that revenues may be derived from fixed professional fee agreements or from fees generated through hourly rates billed on a time and expense basis.

Our most significant expense related to our consulting business is the cost of services before reimbursable expenses, which generally relates to costs associated with generating revenues, and includes employee payroll expenses and benefits, contractor compensation, vendor compensation, marketing expenses and direct costs of training and recruiting the consulting staff. Consultant compensation consists of salaries, incentive compensation and benefits. As revenues are generated from services performed by our permanent staff and contractors, our success depends on attracting, retaining and motivating talented, creative and experienced professionals at all levels.

For almost the past decade we have been engaged in the development of proprietary nuclear fuel designs which we intend ultimately to introduce for sale into three markets: (1) nuclear fuel designs for use in commercial nuclear power plants, (2) nuclear fuel designs for reactor-grade plutonium disposition, and (3) nuclear fuel designs for weapons-grade plutonium disposition. These fuel designs are primarily for use in existing or future VVER-1000 light water reactors. We have also been conducting research and development relating to a variant of these nuclear fuel



designs for use in existing pressurized water reactors (PWR).

Our future customers may include nuclear fuel fabricators and/or nuclear power plants, and/or the U.S. or foreign governments.

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To date, our operations have been devoted primarily to the development and demonstration of our nuclear fuel designs, developing strategic relationships within and outside of the nuclear power industry, securing political and financial support from the U.S. and Russian governments, the filing of patent applications and related administrative functions.

While we do not currently have any direct revenues from our research and development activities regarding our proprietary nuclear fuel technology, and expect that we will not generate licensing revenues from this business for several years, until our fuel designs can be fully tested and demonstrated and we obtain the proper approvals to use our nuclear fuel designs in nuclear reactors, we are utilizing certain common corporate capabilities in both our technology and consulting businesses. We believe we can leverage our general nuclear technology, business and regulatory expertise and industry relationships, to optimize our technology development plans as well as create integrated advisory services with the highest levels of expertise and experience in the nuclear power industry. Additionally, our knowledge of and credibility in addressing proliferation related issues that we have developed over many years, benefit our new consulting business. Moreover, while our advisory services are technology-agnostic, we believe that through increasing familiarity with our company in the industry and within new markets, we will be able to improve the awareness of our proliferation-resistant fuel designs as viable alternative to traditional uranium based fuels.

## **Material Opportunities and Challenges**

### **Nuclear Energy Consulting Services**

Our emergence in the field of nuclear energy consulting is in direct response to the need for independent assessments and highly qualified technical consulting services from countries looking to establish nuclear energy programs, while still providing a blueprint for safe, clean, efficient and cost-effective non-proliferative nuclear power. We offer full-scope planning and advisory services for new and existing markets, and offer such services without a bias towards or against any reactor vendor or fuel technology. We believe that there are significant opportunities available to provide services to governments that are dedicated to non-proliferative and transparent nuclear programs.

Our major challenge in pursuing our business is that many of the governments that could benefit the most from our services are in a regions of the world where tensions surrounding nuclear energy are high. International political pressure may hinder our efforts to provide nuclear energy services, regardless of our focus on non-proliferative nuclear power.

### **Proprietary Nuclear Fuel Technology Development**

We believe that a major opportunity for us is the possibility that our fuel designs, which are currently in the research and development stage, will be used in the manufacturing of nuclear fuel utilized in many existing light water nuclear reactors in the future. Light water reactors are the dominant reactor types currently in use in the world and fuels for such reactors constitute the majority of the commercial market for nuclear fuel. Our focus is on three different types,

or variants, of thorium fuel designs. The first is designed to provide reactor owner-operators with an economically viable alternative fuel that will not generate weapons-usable plutonium in the spent fuel. The second is designed to dispose of reactor-grade plutonium that has been extracted from spent fuel from commercial reactors and stockpiled in Russia, Western Europe, the U.S., Japan and other countries. The third is designed to dispose of weapons-grade plutonium that is stockpiled in Russia and the United States. All three of these fuel variants are expected to have additional benefits, including reduced volume and reduced long-term radio-toxicity of spent fuel for the same amount of electricity generated, as compared with the uranium fuels that are currently used in light water reactors and as compared with MOX fuel.

We, through our wholly owned subsidiary Thorium Power, Inc. have been developing relations with relevant entities within the United States and Russian governments for over fourteen years. Thorium Power, Inc., in cooperation with these governments, has been demonstrating its fuel designs in a research reactor in Russia for over four years. Independent analyses of the technology have been performed, including a May 2005 report by the IAEA and an April 2005 report by Westinghouse Electric Company LLC ( Westinghouse ). The IAEA and Westinghouse analyses were positive and management believes that they can help lead to the favorable reception of our nuclear fuel designs in the future.

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We are also working with Russian nuclear research institutes and Russian nuclear regulatory authorities to have one or more of the fuel designs demonstrated in a Russian VVER-1000 reactor within the next three to four years, if we are able to obtain necessary support and enter into agreements with the Russian government and Russian research institutes. We believe that it will be necessary to enter into commercial arrangements with one or more major nuclear fuel fabricators, which in many cases are also nuclear fuel vendors, as a prerequisite to having our fuel designs widely deployed in global markets.

Our nuclear fuel designs have never been demonstrated in a full-size commercial reactor. Our planned demonstration of the fuels in a VVER-1000 reactor in Russia would provide operating experience that is critical to reactor owners and regulatory authorities. We believe that once the fuels have been demonstrated in the VVER-1000 reactor, this can help convince other light water reactor operators around the world to accept our thorium fuel designs.

We have also been conducting research and development relating to a variant of these nuclear fuel designs for use in existing and future Western pressurized water reactors (PWR).

We believe that our greatest challenge will be acceptance of these fuel designs by nuclear power plant operators, which have in the past been hesitant to be the first to use a new type of nuclear fuel. In addition, our fuel designs would require regulatory approval by relevant nuclear regulatory authorities, such as the Nuclear Regulatory Commission in the United States or its equivalent agencies in other countries, before they can be used in commercial reactors. The regulatory review process, which is outside of our control, may take longer than expected and may delay a rollout of the fuel designs into the market. We believe that demonstration of one of the Company's fuel designs in a commercial nuclear reactor would make deployment of the other designs easier due to the many similarities that exist among all of our fuel designs.

Thorium Power, Inc. has been building relationships with companies and organizations in the nuclear power industry for several years. We will attempt to cause some or all of these companies and organizations to work in a consortium or a joint venture type arrangement with us in the future, however, we may not be able to develop any such consortium or arrangement in the near term or at all. The companies that we have identified for potential relationships have existing contracts with nuclear power plant owner-operators under which they supply nuclear fuel branded with their name to such nuclear power plants. We will attempt to cause these nuclear fuel vending companies to provide

their nuclear power plant operating customers with fuels that are designed with our technology. To do so, we will need to enter into agreements with one or more of these companies. Without such arrangements it would be more difficult for us to license our fuel designs because, in addition to the reputations, guarantees, services, and other benefits that these nuclear fuel vendors provide when selling fuel to nuclear power plant operators, they also often have multi-year fuel supply contracts with the reactor operators. These multi-year fuel supply contracts act as a barrier to entry into the market, such that it can be almost impossible to penetrate some markets for nuclear fuel without working with a nuclear fuel vendor that can support long term contracts. If we are successful in demonstrating our fuel designs in Russia and in continuing to build relationships with nuclear fuel vendors, we believe it may lead to one or more of these major companies in the nuclear power industry working with us in producing and selling our nuclear fuel designs to commercial reactor operators and governments.

## Plan of Operation

At December 31, 2007, our total assets were approximately \$10.7 million. Liabilities as of December 31, 2007 totaled approximately \$7.1 million. We had working capital surplus of approximately \$3.4 million at December 31, 2007.

We expect that our present working capital will meet our foreseeable working capital needs for the next 10 – 12 months from the date of this filing. Although our consulting revenues have improved our cash position (balance of \$6.7 million as of March 27, 2008 plus an additional expected cash infusion in April of \$4.3 million from a new consulting agreement effective March 17, 2008) we will need to raise additional capital by way of an offering of equity securities, an offering of debt securities, or by obtaining financing through a bank or other entity to finance our overhead and research and development expenditures in support of our long-term business plan. Our current average monthly projected working capital requirements for the company, excluding the \$5 million of research and development expenses we expect to incur in Russia over the next 12 – 15 months is approximately \$ 800,000 per month (including approximately \$205,000 per month for payroll and

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payroll-related fringe benefits). This financing will need to take place by the end of 2008 or early 2009 to ensure that we have the necessary working capital to continue our operations in 2009. It is important to note that financing may not be available or we may not be able to obtain that financing on terms acceptable to us. If additional funds are raised through the issuance of equity securities, there may be a significant dilution in the value of our outstanding common stock. To support this financing activity, we are exploring transaction opportunities that could simultaneously create strategic industry and market alliances for the company, to support our operations in 2009 and beyond.

Going forward, we aim to enter into additional consulting contracts to provide support and assistance to commercial and governmental entities with developing and expanding their nuclear industry capabilities and infrastructure. Expenses incurred in the provision of such services will be covered by our clients, and as such will not negatively impact our financial condition.

Over the next 12 to 15 months we expect to incur approximately \$5 million in research and development expenses related to the development of our proprietary nuclear fuel designs. Of the \$5 million, the cost of seed and blanket fuel fabrication equipment that would be purchased and used to fabricate trial seed and blanket fuel rods is expected to be approximately \$2 million and the cost of nuclear materials used in fabrication of trial seed and blanket fuel rods is estimated at about \$850,000. We expect to incur these expenses after we have entered into formal agreements with Russian nuclear entities that will grant us licensing and other rights to use such technologies or intellectual property developed by the Russian entities. Any such agreement would require formal review and approval by the Russian Federal Agency for Atomic Energy (RosAtom). We spent approximately \$757,000 for research and development in

2007 and no significant additional amounts spent in 2008, as of the date of this filing.

Over the next several years, we expect that our research and development activities will be primarily focused on testing and demonstration of our thorium/uranium and thorium/reactor-grade plutonium disposing fuel designs. The main objective of this research and development phase is to prepare for full-scale demonstration of our nuclear fuel technology in an operating commercial VVER-1000 reactor in Russia. Key research and development activities will include: (1) Scaling up the fuel fabrication process to full length (10 feet) rods used in commercial VVER-1000 reactors, (2) Validating thermal hydraulic performance of full size (10 feet) seed and blanket fuel assembly, (3)

Continuing capsule irradiation testing of seed and blanket fuel samples in a research reactor and performing post-irradiation examination of fuel samples that have reached the target burn-up level to confirm fuel performance, and (4) Obtaining final regulatory approvals for insertion of fuel in VVER-1000 commercial reactors. As this research and development program relates to commercial applications of our fuel technology and retaining ownership or control over as much key intellectual property as we possibly can is critical to the long-term success of our licensing business model, our plan is to fully fund these research and development activities ourselves. At the same time, we do not currently plan to fund research, testing and demonstration of our thorium/weapons-grade plutonium disposing fuel, which can only be used in the U.S.-Russia government-to-government weapons-grade plutonium disposition program and has no commercial applications. Hence, funding for any future research and development activities on this fuel design would have to be provided by the U.S. government or other stakeholders.

## Results of Operations

The reverse merger or recapitalization of Thorium Power Inc. that took place October 6, 2006, reported the operating results of Thorium Power Inc. from January 1, 2006 to October 6, 2006 and the operating results of Thorium Power Inc. and Thorium Power Ltd from October 6, 2006 to December 31, 2006, refer to Item 7, Financial Statements Note 1 Nature of Operations and Merger with Thorium Power Inc. Therefore the comparison of the results of operations for 2007 and 2006 are not comparable and are being presented in the following format:

### Fiscal Year 2007

We had no revenues during the fiscal years ended December 31, 2007.

Our total operating expenses for fiscal year 2007 were \$11.7 million consisting of:

\$4.7 million of stock based compensation;  
\$2.7 million in professional fees and other general and administrative expenses;

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\$2.2 million of payroll and severance expenses;  
\$.8 million in research and development expenses  
\$1.3 million in consulting expenses.

Other income and expense was \$.3 million for fiscal year 2007. This consists of:

\$.3 million of interest income  
Our net loss was approximately \$11.4 million in fiscal year 2007.

## Fiscal Year 2006

We had no revenues during the fiscal years ended December 31, 2006.

Our total operating expenses for fiscal year 2006 were \$12.3 million consisting of:

\$9.1 million of stock based compensation;  
\$1.5 million in professional fees and other general and administrative expenses;  
\$0.8 million of payroll and severance expenses;  
\$0.6 million in contributions to a nuclear reactor project in Texas; and  
\$0.3 million in consulting expenses.

Other income and expense was \$0.6 million for fiscal year 2006. This consists of:

\$1.9 million gain on the fair value of derivative instruments; and  
\$0.1 million of interest income, which was offset by  
\$1.0 million of warrant expense;  
\$0.3 million of registration rights expense; and  
\$0.1 million of stock settlement expense.

Our net loss was approximately \$11.7 million in fiscal year 2006.

Since the acquisition by Thorium Power, Ltd. of Thorium Power, Inc. was treated from an accounting perspective as a reverse acquisition, income and loss of Thorium Power, Ltd. prior to October 6, 2006 (the date of acquisition) is generally not included in the consolidated financial statements of Thorium Power, Ltd. However, prior to the acquisition, approximately \$7.5 million in expenses were incurred by Thorium Power, Ltd. on behalf of Thorium Power, Inc. Consequently, this \$7.5 million was allocated to Thorium Power, Inc. This allocation is the result of the application of SEC Staff Accounting Bulletin (SAB) T.1B1.

## Liquidity and Capital Resources

As of December 31, 2007 and December 31, 2006, we had cash and cash equivalents of \$9.9 million and \$10.9 million, respectively. The following table provides detailed information about our net cash flow for all financial statements periods presented in this Report.

## Cash Flow

	Years Ended December 31,	
	2007	2006
Net cash used in operating activities	(997,377 )	(3,304,635 )
Net cash used in investing activities	(17,968 )	(17,625 )
Net cash provided financing activities	(4,739 )	14,249,752
Net cash flow	(1,020,084 )	10,927,492

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## **Operating Activities:**

Net cash used for operating activities was \$997,377 for the year ended December 31, 2007 which is a decrease of \$2,307,258 from the \$3,304,635 net cash used for operating activities for the same period in 2006. This increase was mainly due to an increase in operating expenses, as shown above in the result of operations.

## **Investing Activities:**

Net cash used for investing activities in the year ended December 31, 2007 was \$17,968, which is an increase of \$343 from net cash used for investing activities of \$17,625 in the same period of 2006 due to the company's purchase of equipment.

## **Financing Activities:**

Net cash used by financing activities in the year ended December 31, 2007 totaled \$4,739 as compared to \$14,249,752 provided by financing activities in the same period of 2006. The decrease of the cash provided by financing activities was mainly attributable to the \$12.7 million of cash acquired from Thorium Power Ltd. in the 2006 merger as well as the reduction in the proceeds received from the issuance of company's common stock in 2006 of \$2.2 million.

While management expects these proceeds, as well as income from our consulting operations, will meet our foreseeable needs for the next 10 - 12 months, we will need to raise additional capital by way of an offering of equity securities, an offering of debt securities, or by obtaining financing through a bank or other entity. If we need to obtain additional financing, that financing may not be available or we may not be able to obtain that financing on terms acceptable to us. If additional funds are raised through the issuance of equity securities, there may be a significant dilution in the value of our outstanding common stock.

## **Off Balance Sheet Arrangements**

We do not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity or capital expenditures or capital resources that is material to an investor in our securities.

## **Seasonality**

Our business has not been subject to any material seasonal variations in operations, although this may change in the future.

## **Inflation**

As a development stage company, our business, revenues and operating results have not been affected in any material way by inflation. If and when it begins marketing thorium and other minerals, management expects its business will be affected by inflation and commodity price volatility.

## **Critical Accounting Policies**

The SEC issued Financial Reporting Release No. 60, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies* suggesting that companies provide additional disclosure and commentary on their most critical accounting policies. In Financial Reporting Release No. 60, the SEC has defined the most critical accounting policies

as the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the following significant policies as critical to the understanding of our financial statements.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make a variety of estimates and assumptions that affect (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and (ii) the reported amounts of revenues and expenses during the reporting periods covered by the financial statements.

Our management expects to make judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the future resolution of the uncertainties

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increase, these judgments become even more subjective and complex. Although we believe that our estimates and assumptions are reasonable, actual results may differ significantly from these estimates. Changes in estimates and assumptions based upon actual results may have a material impact on our results of operation and/or financial condition. We have identified certain accounting policies that we believe are most important to the portrayal of our current financial condition and results of operations. Our significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included in the Annual Report on Form 10-K.

### **Deferred Tax Assets and Liabilities**

We will recognize the expected future tax benefit from deferred tax assets when the tax benefit is considered to be more likely than not of being realized. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, our ability to realize deferred tax assets could be impacted. Additionally, future changes in tax laws in the jurisdictions in which we operate could limit our ability to obtain the future tax benefits.

### **Accounting for Stock Based Compensation, Stock Options and Warrants Granted to Employees and Non-employees**

We adopted the provisions of SFAS 123R, which requires the use of the fair value method of accounting for share-based compensation. Under the fair value based method, compensation cost related to employee stock options or similar equity instruments is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. SFAS 123R also requires measurement of cost of a liability-classified award based on its current fair value. The fair value of the liability-classified award will be subsequently re-measured at each reporting date through the settlement date. Change in fair value during the requisite service period will be recognized as compensation cost over that period. We determine fair value using the Black-Scholes model. Under this model, certain assumptions, including the risk-free interest rate, the expected life of the options and the estimated fair value of our ordinary shares and the expected volatility, are required to determine the fair value of the options. If different assumptions had been used, the fair value of the options would have been different from the amount we computed and recorded, which would have resulted in either an increase or decrease in the compensation expense.

The options were valued using the Black-Scholes option pricing model. The assumptions used were as follows: volatility of 99% to 275%, a risk-free interest rate of 4.06% to 4.45%, dividend yield of 0% and an exercise term of one to ten years.

## **Allocation of Expenses Between Thorium Power, Ltd. and Thorium Power, Inc. in 2006**

We adopted Staff Accounting Bulletin SAB.T.1B1 whereby 2006 expenses incurred by Thorium Power, Ltd. on behalf of Thorium Power, Inc. prior to the merger on October 6, 2006, were allocated to Thorium Power, Inc. and included as expenses in the accompanying Consolidated Statements of Operations. This allocation required management to make some estimates on how to allocate certain general and administrative expenses. A total of \$7,477,700 of expenses was allocated for the period January 1, 2006 to October 6, 2006, which included \$6,602,098 of stock based compensation and \$875,602 of general and administrative expenses.

## **Revenue Recognition from Consulting Contracts**

We believe one of our critical accounting policies is revenue recognition from our consulting contracts, in which we use the completed performance model. We are currently primarily deriving our revenue from fees by offering consulting and strategic advisory services to foreign commercial and government owned entities planning to create or expand electricity generation capabilities using nuclear power plants. Our fee type and structure for each client engagement will depend on a number of variables, including the size of the client, the complexity, the level of the opportunity for us to improve the client's electricity generation capabilities using nuclear power plants and other factors.

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We entered into one consulting contract in 2007, where the consulting fee was fixed and determinable under the contract. We do not anticipate breaching the contract but in the event that we do breach the contract, such as not deliver the final report to the foreign government, the consulting fee could be refundable under the provision of the contract. Therefore, the consulting fee revenue from this contract is being recognized on the completed performance model. We expect that revenue recognition will occur in 2008, when the delivery of the final feasibility report to the government or some other evidence of completion of the project is evident.

## **Item 8. Financial Statements.**

The full text of our audited consolidated financial statements as of December 31, 2007 and 2006 begins on page F-1 of this Report.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

There have been no disagreements regarding accounting and financial disclosure matters with our independent certified public accountants.



## **Item 9A. Controls and Procedures.**

### **Disclosure Controls and Procedures**

As required by Rule 13a-15 under the Exchange Act, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as of the end of the period covered by this report on Form 10-K. This evaluation was carried out under the supervision and with the participation of our management, including our President and Chief Executive Officer, and our acting Chief Financial Officer. Based upon that evaluation, management concluded that the our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is accumulated and communicated to management (including the chief executive officer and chief financial officer) to allow timely decisions regarding required disclosure and that our disclosure controls and procedures are effective to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

There were no changes in our internal control over financial reporting identified in connection with the evaluation performed that occurred during the fiscal year covered by this report that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted 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 reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive and acting Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

### **Internal Controls Over Financial Reporting**

Section 404 of the Sarbanes-Oxley Act of 2002 requires that management document and test the Company's internal control over financial reporting and include in this Annual Report on Form 10-K a report on management's assessment of the effectiveness of our internal control over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting is effective, as of December 31, 2007.

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This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

## Item 9B. Other Information.

None.

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## PART III

The information required by Item 9 Directors, Executive Officers, Promoters and Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act of the Registrant; Item 10 Executive Compensation; Item 11 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, Item 12 Certain Relationships and Related Transactions, and Director Independence and Item 14 Principal Accountant Fees and Services is incorporated into Part III of this Annual Report on Form 10-K by reference to the Proxy Statement for our Annual Meeting of Stockholders scheduled to be held on May 29, 2008.

## Item 13. Exhibits.

The following exhibits are filed with this report, except those indicated as having previously been filed with the Securities and Exchange Commission and are incorporated by reference to another report, registration statement or form. As to any shareholder of record requesting a copy of this report, we will furnish any exhibit indicated in the list below as filed with this report upon payment to us of our expenses in furnishing the information.

Exhibit Number	Description
3.1	Articles of Incorporation (incorporated by reference from the Company's Registration Statement on Form 10-SB filed on December 17, 1999).
3.2	By-laws (incorporated by reference from the Company's Current Report on Form 8-K filed on September 18, 2006).
4.1	2005 Compensation Plan for Outside Consultants of Custom Brand Networks, Inc. dated March 1, 2005 (incorporated by reference from the Company's Registration Statement on Form S-8 filed on March 10, 2005).
4.2	2005 Augmented Compensation Plan for Outside Consultants of the Company dated August 15, 2005 (incorporated by reference from the Company's Registration Statement on Form S-8 filed on August 19, 2005).
4.3	2006 Stock Plan (incorporated by reference to Exhibit 10.1 of the current report of the Company on Form 8-K filed February 21, 2006)
10.1	Amendment No. 1, dated March 5, 2006, to Mining Acquisition Agreement between Walter Doyle and the Company (incorporated by reference from Exhibit 10.12 of the Company's Registration Statement on Form S-4 filed June 14, 2006).
10.2	Agreement and Plan of Merger dated as of February 14, 2006, between Novastar Resources Ltd., TP Acquisition Corp. and Thorium Power, Inc. (incorporated by reference from the Company's Current Report on Form 8-K filed on June 13, 2006).
10.3	Amendment No. 1, dated June 9, 2006, to Agreement and Plan of Merger between Novastar Resources Ltd., TP Acquisition Corp. and Thorium Power, Inc. (incorporated by reference to Exhibit 10.1 of the current report of the Company on Form 8-K filed June 13, 2006).
10.4	

## Edgar Filing: Thorium Power, Ltd - Form 10-K

- Employment Agreement, dated as of February 14, 2006, between the Company and Seth Grae (incorporated by reference to Exhibit 10.2 of the current report of the Company on Form 8-K filed February 21, 2006)
- 10.5 Stock Option Agreement, dated as of February 14, 2006, between the Company and Seth Grae (incorporated by reference to Exhibit 10.3 of the current report of the Company on Form 8-K filed February 21, 2006)
- 10.6 Office Service Renewal Agreement, dated September 21, 2005, between Tysons Business Center, LLC and Thorium Power (incorporated by reference from Exhibit 10.22 of the initial filing of the Company's Registration Statement on Form S-4 filed June 14, 2006).

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Exhibit Number	Description
10.7	Teaming Agreement dated February 22, 2006 between The University of Texas System, The University of Texas of the Permian Basin, The University of Texas at Austin, The University of Texas at Arlington, The University of Texas at Dallas, The University of Texas at El Paso, The City of Andrews, Texas, Andrews County, Texas, the Midland Development Corporation, the Odessa Development Corporation, Thorium Power and General Atomics (incorporated by reference from Exhibit 10. the Company's Registration Statement on Form S-4 filed June 14, 2006).
10.8	Amendment No. 1 to Amended and Restated Consulting Agreement, dated June 12, 2006, among the Company, Alan Gelband and Alan Gelband Company, Inc. (incorporated by reference to Exhibit 10.1 of the current report of the Company on Form 8-K filed June 13, 2006).
10.9	Employment Agreement, dated June 6, 2006, between the Company and Cornelius J. Milmoie (incorporated by reference to Exhibit 10.1 of the current report of the Company on Form 8-K filed June 13, 2006).
10.10	Stock Option Agreement, dated June 6, 2006, between the Company and Cornelius J. Milmoie (incorporated by reference to Exhibit 10.1 of the current report of the Company on Form 8-K filed June 13, 2006).
10.11	Consulting Agreement, dated June 12, 2006, between the Company and Larry Goldman (incorporated by reference to Exhibit 10.1 of the current report of the Company on Form 8-K filed June 13, 2006).
10.12	Stock Option Agreement, dated June 12, 2006, between the Company and Larry Goldman (incorporated by reference to Exhibit 10.1 of the current report of the Company on Form 8-K filed June 13, 2006).
10.13	Office Service Agreement, dated April 19, 2006, between Tysons Business Center LLC and the Company (incorporated by reference from Exhibit 10.31 the Company's Registration Statement on Form S-4 filed June 14, 2006).
10.14	Employment Agreement, dated July 27, 2006, between the Company and Andrey Mushakov (incorporated by reference to Exhibit 10.1 of the current report of the Company on Form 8-K filed August 4, 2006).
10.15	Stock Option Agreement, dated July 27, 2006, between the Company and Andrey Mushakov (incorporated by reference to Exhibit 10.2 of the current report of the Company on Form 8-K filed August 4, 2006).
10.16	Employment Agreement, dated July 27, 2006, between the Company and Thomas Graham, Jr. (incorporated by reference to Exhibit 10.3 of the current report of the Company on Form 8-K filed August 4, 2006).

## Edgar Filing: Thorium Power, Ltd - Form 10-K

- 10.17 Stock Option Agreement, dated July 27, 2006, between the Company and Thomas Graham, Jr. (incorporated by reference to Exhibit 10.4 of the current report of the Company on Form 8-K filed August 4, 2006).
- 10.18 Amendment No. 2, dated August 8, 2006, to Agreement and Plan of Merger between Novastar Resources Ltd., TP Acquisition Corp. and Thorium Power, Inc. (incorporated by reference to Exhibit 10.1 of the current report of Novastar on Form 8-K filed August 9, 2006).
- 10.19 Independent Director Contract, dated August 21, 2006, between the Company and Victor Alessi (incorporated by reference to Exhibit 10.1 of the current report of the Company on Form 8-K filed August 25, 2006).
- 10.20 Stock Option Agreement, dated August 21, 2006, between the Company and Victor Alessi (incorporated by reference to Exhibit 10.2 of the current report of the Company on Form 8-K filed August 25, 2006).
- 10.21 Independent Director Contract, dated August 21, 2006, between the Company and Victor Alessi (incorporated by reference to Exhibit 10.1 of the current report of the Company on Form 8-K filed August 25, 2006).

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Exhibit Number	Description
10.22	Independent Director's Contract, dated October 23, 2006, between Thorium Power, Ltd. and Jack D. Ladd (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on October 23, 2006).
10.23	Independent Director's Contract, dated October 23, 2006, between Thorium Power, Ltd. and Daniel B. Magraw (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on October 23, 2006).
10.24	Employment Agreement, dated February 1, 2007, between the Company and Erik Hallstrom (incorporated by reference to Exhibit 10.1 of the current report of the Company on Form 8-K filed February 1, 2007).
10.25	Restricted Stock Grant Agreement, dated April 12, 2007, between Erik Hallstrom and Thorium Power, Ltd. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on April 18, 2007).
10.26	Stock Option Agreement, dated April 12, 2007, between Erik Hallstrom and Thorium Power, Ltd. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on April 18, 2007).
10.27	Independent Director's Contract, dated October 23, 2006, between Thorium Power, Ltd. and Jack D. Ladd (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on October 23, 2006).
10.28	Independent Director's Contract, dated October 23, 2006, between Thorium Power, Ltd. and Daniel B. Magraw (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on October 23, 2006).
10.29	Employment Agreement, dated February 1, 2007, between the Company and Erik Hallstrom (incorporated by reference to Exhibit 10.1 of the current report of the Company on Form 8-K filed February 1, 2007).
10.30	Restricted Stock Grant Agreement, dated April 12, 2007, between Erik Hallstrom and Thorium Power, Ltd. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on April 18, 2007).
10.31	Stock Option Agreement, dated April 12, 2007, between Erik Hallstrom and Thorium Power, Ltd. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K,

- filed on April 18, 2007).
- 10.32 Employment Agreement, dated February 1, 2007, between James Guerra and Thorium Power, Ltd. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on October 23, 2007)
- 10.33\* Agreement for Ampoule Irradiation Testing in 2006-2007, dated December 28, 2007, between Thorium Power, Inc. and Russian Research Centre Kurchatov Institute. (English Translation) (Portions of the Agreement for Ampoule Irradiation Testing in 2006-2007 have been omitted pursuant to a request for confidential treatment.)
- 14.1 Code of Ethics (incorporated by reference from the Company's Annual Report on Form 10-KSB filed on November 25, 2005).
- 16.1 Letter from Morgan and Company dated September 14, 2005 regarding change in independent accountant (incorporated by reference from the Company's Current Report on Form 8-K filed on October 11, 2005).
- 31.1\* Rule 13a-14(a)/15d-14(a) Certification Principal Executive Officer
- 31.2\* Rule 13a-14(a)/15d-14(a) Certification Principal Accounting Officer
- 32\* Section 1350 Certifications

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Filed herewith

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**AUDITED FINANCIAL STATEMENTS**

**THORIUM POWER, LTD.  
December 31, 2007 and 2006**

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Douglas W. Child, CPA	<b>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</b>
Marty D. Van Wagoner, CPA	
J. Russ Bradshaw, CPA	
	To The Board of Directors and Stockholders of

William R. Denney, CPA  
Roger B. Kennard, CPA  
Russell E. Anderson, CPA  
Scott L. Farnes

Thorium Power, Inc.  
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We have audited the accompanying balance sheets of Thorium Power, Inc. (a development stage company) (the Company) as of December 31, 2007 and 2006, and the related statements of operations and comprehensive loss, cash flows, and changes in stockholders' equity (deficit) for the years ended December 31, 2007 and 2006, and for the period of January 8, 1992 (inception) to December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thorium Power, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006, and for the period of January 8, 1992 (inception) to December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Child, Van Wagoner & Bradshaw, PLLC  
Child, Van Wagoner & Bradshaw, PLLC

Salt Lake City, Utah  
March 18, 2008

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**THORIUM POWER, LTD.  
(A Development Stage Company)**

## CONSOLIDATED BALANCE SHEETS

	December 31, 2007	December 31, 2006
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$9,907,691	\$10,927,775
Prepaid expenses & other current assets	204,035	394,443
Deferred project costs	371,631	0
Total Current Assets	10,483,357	11,322,218
Property Plant and Equipment net	30,676	21,290
Other Assets		
Patent costs net	217,875	217,875
Security deposits	2,049	2,049
Total Other Assets	219,924	219,924
Total Assets	\$10,733,957	\$11,563,432
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Current portion long term debt	\$4,651	\$4,739
Accounts payable and accrued liabilities	2,122,649	1,121,083
Customer deposit and other current liabilities	1,206,875	347,690
Deferred revenue	3,793,125	0
Warrant liability	0	1,132,440
Total Current Liabilities	7,127,300	2,605,952
Notes Payable long term	5,782	10,433
Total Liabilities	7,133,082	2,616,385
Common Stock with Registration Rights		
Common Stock subject to continuing registration, \$0.001 par value, 36,659,837 shares issued and outstanding at December 31, 2006	0	12,041,373
Stockholders' Equity (Deficiency)		
Preferred stock, \$0.001 par value, 50,000,000 authorized shares, no shares issued and outstanding	0	0
Common stock, \$0.001 par value, 500,000,000 authorized, 299,014,182 shares issued and outstanding at December 31, 2007 and 257,291,709 shares outstanding at December 31, 2006	299,014	257,292
Additional paid in capital stock and stock equivalents	41,791,735	23,148,560
Deficit accumulated during the development stage	(38,630,572)	(27,177,989)
Common stock reserved for issuance, 2,000,000 shares at December 31, 2007 and 4,000,000 shares at December 31, 2006	590,000	1,200,000
Accumulated other comprehensive income	30,143	18,861
Deferred stock compensation	(479,445 )	(285,200 )
Treasury stock 850,000 shares outstanding at December 31, 2006	0	(255,850 )
Total Stockholders' Equity (Deficiency)	3,600,875	(3,094,326 )
Total Liabilities and Stockholders' Equity (Deficiency)	\$10,733,957	\$11,563,432

*The accompanying notes are an integral part of these consolidated financial statements.*

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## THORIUM POWER, LTD. (A Development Stage Company)

### CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Years Ended December 31,		Cumulative Period from January 8, 1992 (Inception) to December 31, 2007
	2007	2006	
Revenue:			
License revenue	\$0	\$0	\$624,985
Total Revenue	0	0	624,985
Operating Expenses			
General and administrative	6,259,317	3,150,243	19,413,878
Research and development expenses	756,755	34,400	4,683,313
Stock-based compensation	4,745,098	9,131,746	16,106,715
Total Operating Loss	11,761,170	12,316,389	(39,578,921)
Other Income and (Expenses)			
Gain on fair value of warrant derivatives	0	1,902,286	1,902,286
Interest income/expense, other	367,187	115,128	514,016
Stock settlement expense	(37,160 )	(92,260 )	(129,420 )
Registration right expense	0	(353,706 )	(353,706 )
Warrant expense	(21,440 )	(963,387 )	(984,827 )
Total Other Income and Expenses	308,587	608,061	948,349
Net Loss	(11,452,583 )	(11,708,328 )	\$(38,630,572)
Other Comprehensive Income (Loss)			
Unrealized Gain Marketable Securities	11,282	18,861	
Total Comprehensive Loss	\$(11,441,301 )	\$(11,689,467 )	
Net Loss Per Common Share, Basic and diluted	\$(0.04 )	\$(0.08 )	
Weighted Average Number of shares outstanding for the period used to compute per share data	296,666,502	153,733,780	

*The accompanying notes are an integral part of these consolidated financial statements.*



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# THORIUM POWER, LTD.

## (A Development Stage Company)

### CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		Cumulative Amounts January 8, 1992 (Inception) to December 31, 2007
	2007	2006	
Operating Activities			
Net Loss	\$(11,452,583)	\$(11,708,328)	\$(38,630,572)
Adjustments to reconcile net loss from operations to net cash used in operating activities:			
Shares issued for other than cash for payment of expenses	4,978,981	9,131,746	16,428,847
Gain on fair value of warrant liability	0	(1,902,286 )	(1,902,286 )
Depreciation and Amortization	8,582	10,886	365,793
Gain or loss on disposition of assets	0	0	86,855
Warrant Expense	21,440	963,387	984,827
Settlement Expense	37,161	92,260	129,421
Allocated general and administrative expenses contributed capital	0	290,769	290,769
Changes in non-cash operating working capital items:			
Prepaid expenses and other current assets	321,966	(270,779 )	44,907
Accounts payable, accrued liabilities and other current liabilities	177,762	(220,200 )	896,338
Other assets	0	5,518	5,518
Other current liabilities	1,116,189	302,392	1,418,581
Deferred revenue	3,793,125	0	3,793,125
Net Cash Used in Operating Activities	(997,377 )	(3,304,635 )	(16,087,877)
Investing Activities			
Purchase of equipment	(17,968 )	(10,961 )	(303,113 )
Proceeds from the sale of equipment	0	0	13,583
Acquisition of patents	0	(6,664 )	(411,669 )
Other	0	0	(7,567 )
Net Cash Used in Investing Activities	(17,968 )	(17,625 )	(708,766 )
Financing Activities			
Proceeds from Issue of common shares	0	2,202,678	14,498,016

Capitalization of Share Issue costs	0	(441,553 )	(441,553 )
Payments on notes payable and other	(4,739 )	(3,781 )	10,432
Proceeds of loan related party	0	0	384,690
Repayment of loan related party	0	0	(239,659 )
Purchase of treasury stock	0	(255,850 )	(255,850 )
Other	0	5,850	5,850
Cash acquired in recapitalization of Thorium Power Inc.	0	12,742,408	12,742,408
Net Cash Provided by Financing Activities	\$(4,739 )	\$14,249,752	\$26,704,334
Net Increase in Cash and Cash Equivalents	\$(1,020,084 )	\$10,927,492	\$9,907,691
Cash and Cash Equivalents, Beginning of Year	10,927,775	283	0
Cash and Cash Equivalents, End of Year	\$9,907,691	\$10,927,775	\$9,907,691
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year:			
Interest paid	\$876	\$4,665	\$5,541
Income taxes paid	\$0	\$0	\$0
Non-cash transactions			
Conversion of liabilities to equity	\$278,441	\$4,100	\$282,541

*The accompanying notes are an integral part of these consolidated financial statements.*

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**THORIUM POWER, LTD.  
(A Development Stage Company)**

**CONSOLIDATED STATEMENT OF CHANGES IN  
STOCKHOLDERS DEFICIENCY  
From January 8, 1992 (Inception) to December 31, 2007**

	Common Stock		Additional	Accumulated	Stockholders
	Shares	Amount	Paid-in Capital	(Deficit)	Equity
Inception January 8, 1992					
Issuance of common stock for technology and service	37,632,000	60,000			60,000
Net (loss) for the period ended				(60,000 )	(60,000 )
Balance December 31, 1992 (unaudited)	37,632,000	60,000		(60,000 )	
Issuance of common stock and warrants for cash	8,106,560	12,925	535,030		547,955
	1,473,920	2,350	20,000		22,350

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Issuance of stock in exchange for services					
Exercise of stock options and warrants	313,600	500	99,500		100,000
Net (loss) for the year ended December 31, 1993				(81,526 )	(81,526 )
Balance December 31, 1993 (unaudited)	47,526,080	75,775	654,530	(141,526 )	588,779
Authorized 10,000,000 shares \$0.05 par value					
Issuance of common stock and warrants for cash	821,632	1,310	260,690		262,000
Issuance of stock in exchange for services	313,600	500	9,500		10,000
Issuance of options to non-employees for services			15,400		15,400
Net (loss) for the year ended December 31, 1994				(639,861 )	(639,861 )
Balance December 31, 1994 (unaudited)	48,661,312	77,585	940,120	(781,387 )	236,318
Issuance of common stock and warrants for cash	1,301,440	2,075	412,925		415,000
Issuance of stock in exchange for services	244,608	390	7,410		7,800
Exercise of stock options and warrants	313,600	500	9,500		10,000
Net (loss) for the year ended December 31, 1995				(1,088,082)	(1,088,082)
Balance December 31, 1995 (unaudited)	50,520,960	80,550	1,369,955	(1,869,469)	(418,964 )
Issuance of common stock for cash	950,208	1,515	301,485		303,000
Issuance of common stock for services	250,880	400	7,600		8,000
Exercise of stock options and warrants	1,066,240	1,700	32,300		34,000
Issuance of options to non-employees for services			7,950		7,950
Net (loss) for the year ended December 31, 1996				(763,179 )	(763,179 )
Balance December 31, 1996 (unaudited)	52,788,288	\$84,165	\$1,719,290	\$(2,632,648)	\$(829,193 )

*The accompanying notes are an integral part of these consolidated financial statements.*

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# THORIUM POWER, LTD.

## (A Development Stage Company)

### CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS DEFICIENCY (continued) From January 8, 1992 (Inception) to December 31, 2007

	Common Stock		Additional Paid-in Capital	Accumulated (Deficit)	Stockholders Equity
	Shares	Amount			
Balance December 31, 1996 (unaudited)	52,788,288	\$84,165	\$1,719,290	\$(2,632,648)	\$(829,193 )
Issuance of common stock and warrants for cash	1,778,112	2,835	564,165		567,000
Exercise of stock options and warrants	1,599,360	2,550	79,450		82,000
Issuance of options to non-employees for services			15,960		15,960
Net (loss) for the year ended December 31, 1997				(598,718 )	(598,718 )
Balance December 31, 1997 (unaudited)	56,165,760	89,550	2,378,865	(3,231,366)	(762,951 )
Issuance of common stock and warrants for cash	2,086,568	3,327	662,033		665,360
Exercise of stock options and warrants	8,780,800	14,000	456,000		470,000
Issuance of options to non-employees for services			1,325		1,325
Net (loss) for the year ended December 31, 1998				(792,185 )	(792,185 )
Balance December 31, 1998 (unaudited)	67,033,128	106,877	3,498,223	(4,023,551)	(418,451 )
Issuance of common stock for cash	1,118,768	1,784	354,966		356,750
Exercise of stock options and warrants	1,105,440	1,762	180,738		182,500
Net (loss) for the year ended December 31, 1999				(822,803 )	(822,803 )
Balance December 31, 1999 (unaudited)	69,257,336	110,423	4,033,927	(4,846,354)	(702,004 )
Issuance of common stock for cash	8,925,056	14,230	2,831,770		2,846,000
Issuance of common stock for services	3,198,720	5,100	449,900		455,000
Net (loss) for the year ended December 31, 2000				(1,487,354)	(1,487,354)
	81,381,112	129,753	7,315,597	(6,333,708)	1,111,642

Balance December 31, 2000 (unaudited)					
Issuance of common stock and warrants for cash	10,976,000	17,500	3,468,031		3,485,531
Issuance of common stock for settlement	313,600	500	36,100		36,600
Exercise of stock options and warrants	896,896	1,430	139,570		141,000
Modification of options			28,500		28,500
Net (loss) for the year ended December 31, 2001				(2,606,466)	(2,606,466)
Balance December 31, 2001 (unaudited)	93,567,608	\$149,183	\$10,987,798	\$(8,940,174)	\$2,196,807

*The accompanying notes are an integral part of these consolidated financial statements.*

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**THORIUM POWER, LTD.  
(A Development Stage Company)**

**CONSOLIDATED STATEMENT OF CHANGES IN  
STOCKHOLDERS DEFICIENCY (continued)  
From January 8, 1992 (Inception) to December 31, 2007**

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated (Deficit)	Stockholders Equity
Balance December 31, 2001 (unaudited)	93,567,608	149,183	10,987,798	(8,940,174 )	2,196,807
Issuance of common stock and warrants for cash	156,800	250	49,750		50,000
Exercise of stock options and warrants	156,800	250	22,750		23,000
Issuance of common stock not previously recognized	31,360	50	(50 )		
Net (loss) for the year ended December 31, 2002				(2,224,775 )	(2,224,775)
Balance December 31, 2002 (unaudited)	93,912,568	149,733	11,060,248	(11,164,949)	45,032
Issuance of common stock and warrants for cash	3,606,400	5,750	604,250		610,000

Exercise of stock options and warrants	3,333,568	5,315	157,685		163,000
Modifications of options and warrants			1,506,427		1,506,427
Issuance of common stock not previously recognized	156,800	250	(250 )		
Net (loss) for the year ended December 31, 2003				(2,569,534 )	(2,569,534)
Balance December 31, 2003 (unaudited)	101,009,336	\$ 161,048	\$ 13,328,360	\$(13,734,483)	\$(245,075 )
Issuance of common stock and warrants for cash	1,991,360	3,175	254,576		257,751
Loan conversion into stock	54,880	88	6,913		7,000
Issuance of options to non-employees for services			351,253		351,253
Net (loss) for the year ended December 31, 2004				(974,674 )	(974,674 )
Balance December 31, 2004 (unaudited)	103,055,576	\$ 164,311	\$ 13,941,101	\$(14,709,158)	\$(603,746 )
Issuance of common stock and warrants for cash	2,069,697	3,300	257,692		260,992
Loan conversion into stock	337,904	539	42,561		43,100
Issuance of options to non-employees for services			303,055		303,055
Net (loss) for the year ended December 31, 2005				(760,504 )	(760,504 )
Balance December 31, 2005	105,463,177	\$ 168,149	\$ 14,544,410	\$(15,469,662)	\$(757,103 )

*The accompanying notes are an integral part of these consolidated financial statements.*

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**THORIUM POWER, LTD.  
(A Development Stage Company)**

**CONSOLIDATED STATEMENT OF CHANGES IN  
STOCKHOLDERS DEFICIENCY (continued)  
From January 8, 1992 (Inception) to December 31, 2007**

Additional Paid-in Capital	Accumulated (Deficit) Accumulated	Stock Committed Future	Accumulated Compre- hensive	Deferred Stock Compen-	Treasury Stock	S E
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	Common Stock Shares	Amount		During the Development Stage	Issuance	Income	ation	
<b>December 31, 2005</b>	105,463,177	\$ 168,149	\$ 14,544,410	\$(15,469,662)	\$0	\$0	\$0	\$ \$
Common stock and cash	15,319,674	24,426	2,165,248					
Conversion into stock	32,144	51	4,049					
Exercise of stock options	20,385,474	32,502	(32,502 )					
Stock options and cash	407,680	650	12,350					
Stock for services	627,200	1,000	104,000					
of shares held by Thorium Power, Ltd. (pursuant to)	(6,597,495 )	(10,506 )	10,506					
Conversion 10/6/06 reverse	124,101,637	43,467	(3,035,878 )				(306,000)	
Investor warrants			963,387					
Expense			1,055,648					
Stock for services	204,341	205	226,284					
Exercise of stock options	49,333	49	(49 )					
Settlement expense	307,534	308	91,952					
and merger costs			(441,553 )					
redeemed for								
conversion stock-based	(3,008,990 )	(3,009 )	3,009					
For the year ended 2006				(11,708,327)				
Profits on marketable						18,861		
of deferred stock costs							20,800	
expenses from Thorium Power Ltd.			7,477,700					
Conversion 850,000 shares	(850,000 )							(255,850)
Compensation shares					1,200,000			
future issuance								
<b>December 31, 2006</b>	256,441,709	\$ 257,292	\$ 23,148,560	\$(27,177,989)	\$ 1,200,000	\$ 18,861	\$(285,200)	\$(255,850) \$

\* See footnote 1 regarding the recapitalization of Thorium Power, Inc.

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**THORIUM POWER, LTD.  
(A Development Stage Company)**

## CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIENCY (continued)

	Common Stock		Additional Paid-in Capital	Accumulated (Deficit) Accumulated During the Development Stage	Stock Committed Future Issuance	Accumulated Compre- hensive Income	Deferred Stock Compen- sation	Treasury Stock	
	Shares	Amount						Shares	Amount
<b>December 31,</b>	257,291,709	\$257,292	\$23,148,560	\$(27,177,989)	\$1,200,000	\$18,861	\$(285,200)	(850,000)	\$(255,850)
For	808,916	809	232,678						
For	714,120	714	277,727						
ies									
ensation									
nd for future	2,350,000	2,350	866,150		(1,200,000)				
nd									
ense			3,991,317						
period				(11,452,583)					
on						11,282			
ies									
ferred									
on costs									395,755
f warrant									
nal paid in			1,132,444						
of stock	888,534	888	(888	)					
nts									
ury stock	(850,000	) (850	) (255,000	)				850,000	255,850
merger	128,139	128	37,032						
ensation									
s and	1,022,927	1,023	357,002						
o	36,659,837	36,660	12,004,713						
ares					590,000		(590,000)		
re									
<b>December 31,</b>	299,014,182	\$299,014	\$41,791,735	\$(38,630,572)	\$590,000	\$30,143	\$(479,445)	0	\$0

\* Shares subject to continuing registration rights is shown on the balance sheet as temporary equity, not shareholders deficiency at December 31, 2006



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**THORIUM POWER, LTD.  
(A Development Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL  
STATEMENTS**

**1. Nature of Operations and Merger with Thorium Power, Inc.**

Radkowsky Thorium Power Corp., incorporated in the state of Delaware on January 8, 1992 ( Inception ), changed its name to Thorium Power, Inc. in April 2001. Thorium Power, Inc. is engaged in the development, promotion and marketing of its three patented nuclear fuel designs: (1) Thorium/uranium nuclear fuel, (2) Thorium/reactor-grade plutonium disposing fuel, and (3) Thorium/weapons-grade plutonium disposing fuel. These fuels are designed to be used in existing light water reactors. Presently, we are focusing most of our efforts on demonstrating and testing our nuclear fuel technology for the Russian designed VVER-1000 reactors.

We also offer consulting and strategic advisory services to commercial and government-owned entities planning to create or expand electricity generation capabilities using nuclear power plants. We started working on our first consulting project in December 2007.

Once our reactor fuels are further developed and tested, we plan to license our intellectual property rights to fuel fabricators, nuclear generators, and governments for use in commercial light water nuclear reactors, or sell the technology to a major nuclear company or government contractor or some combination of the two. We anticipate having our technology fully developed for VVER-1000 reactors and our fuel tested in a VVER-1000 operating reactor in the next three to four years. Presently all our research, testing and demonstration activities are being conducted in Russia. Our research operations are subject to various political, economic, and other risks and uncertainties inherent in Russia.

We participate in a highly regulated industry that is characterized by governmental regulation. Our results of operations are affected by a wide variety of factors including general economic conditions, decreases in the use or public favor of nuclear power, the ability of our technology, the ability to safeguard the production of nuclear power and safeguarding our patents and intellectual property from competitors. Due to these factors, we may experience substantial period-to-period fluctuations in our future operating results.

We may in the future be designated as a potentially responsible party (PRP) by federal and state agencies with respect to certain sites with which we may have direct or indirect future involvement. Such designations can be made regardless of the extent of our involvement.

Operations to date have been devoted primarily to continued development of our fuel designs filing for certain patents relating to our technology, developing strategic relationships within the nuclear industry, securing political and some financial support from the United States and Russian governments, and administrative functions. We also started our first consulting project in December 2007. We, therefore, based on our current operations, prepare our accompanying consolidated financial statements as a Development Stage Enterprise.

## Merger Agreement

On February 14, 2006 Novastar Resources Ltd. ( Novastar ), entered into an Agreement and Plan of Merger (the Merger Agreement ) with Thorium Power, Inc. and TP Acquisition Corp., a direct wholly-owned subsidiary of Novastar which was formed in connection with the merger transaction contemplated by the Merger Agreement. (Collectively after the merger, all entities are referred to as the Company. ) Concurrently therewith, Novastar (1) adopted its 2006 Stock Plan, (2) entered into an employment agreement with Seth Grae, President and Chief Executive Officer of Thorium Power, Inc. to also become President and Chief Executive Officer of Novastar, which granted certain nonqualified stock options to Mr. Grae and (3) also entered into a subscription agreement with Thorium Power, Inc. for the purchase of 6,597,495 shares for \$0.13 per share (equivalent to \$4.00 per Thorium Power, Inc. share price), subsequently these 6,597,495 shares were cancelled at the Merger date, October 6, 2006.

The Merger was consummated pursuant to the terms of an Agreement and Plan of Merger among the parties that was entered into on February 14, 2006 and then subsequently the original merger terms were amended on June 12, 2006 and August 8, 2006. On October 6, 2006, subsequent to the merger, Novastar changed its name to Thorium Power, Ltd. ( Thorium Power, Ltd. ).

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## **THORIUM POWER, LTD. (A Development Stage Company)**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **1. Nature of Operations and Merger with Thorium Power, Inc. (continued)**

Under the Merger Agreement each common share of Thorium Power, Inc. was converted into common stock securities of Thorium Power, Ltd. such that Thorium Power, Inc.'s current stockholders owned approximately 54.5% of the combined company (prior to dilution from common stock and warrants issued in connection with the May 2006 private placement), and each share of Thorium Power, Ltd.'s common stock will remain outstanding. In addition, Thorium Power, Ltd. appointed new directors and officers following the merger. The combined company is headquartered in McLean, Virginia, where the Company's operations are presently based.

For financial reporting purposes, this merger transaction was recorded as a recapitalization of Thorium Power, Inc. whereby Thorium Power Inc. is deemed to be the continuing surviving entity for accounting purposes, but through reorganization, has deemed to have adopted the capital structure of Thorium Power, Ltd.

#### **2. Summary of Significant Accounting Policies**

## **a) Consolidation**

These financial statements include the accounts of Thorium Ltd. (a Nevada corporation) and our wholly-owned subsidiaries, Thorium Power, Inc. (a Delaware corporation) and TP Acquisition Corp., (a Delaware corporation). Due to the accounting treatment of the reverse merger mentioned above, the operating results for 2006 reported are those of Thorium Power, Inc. from January 1, 2006 to October 6, 2006 and the operating results of Thorium Power, Inc., Thorium Power, Ltd. and TP Acquisition Corp consolidated, from October 6, 2006 (merger date) to December 31, 2006.

All significant inter-company transactions and balances have been eliminated in consolidation.

## **b) Use of Estimates**

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

These consolidated financial statements include some amounts that are based on management's best estimates and judgments. The most significant estimates relate to valuation of stock grants, stock options and stock purchase warrants, allocation of certain expenses incurred by Thorium Power, Ltd. that were attributable to Thorium Power, Inc. in 2006, the net operating loss carry-forward and the valuation allowance for deferred taxes and various contingent liabilities. These above-mentioned estimates and others may be adjusted as more current information becomes available, and any adjustment could be significant in future reporting periods.

## **c) Cash and Cash Equivalents**

Cash and cash equivalents consists of cash on deposit, money market accounts, and investment grade commercial paper that are readily convertible into cash and purchased with original maturities of three months or less.

As part of its cash management program, the Company from time to time maintains a portfolio of marketable investment securities. The securities are investment grade and include tax and tax exempt securities and have a term to earliest maturity of less than 3 months. These marketable securities, classified as either available for sale, or trading securities are recorded at market value.

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# **THORIUM POWER, LTD. (A Development Stage Company)**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## **2. Summary of Significant Accounting Policies (continued)**

### **Concentration of Credit Risk**

Cash in bank accounts is at risk to the extent that it exceeds Federal Deposit Insurance Corporation insured amounts. To minimize risk, the Company places its cash with high credit quality institutions. Substantially all cash is deposited in two prominent U.S. financial institutions. At December 31, 2007 there was approximately \$9.5 million held at one financial institution.

### **Investment Securities**

Trading and available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on trading securities are included in the net income. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from net income and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged as an expense to the statement of income and comprehensive income and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year end, and forecasted performance of the investee.

### **d) Property and Equipment**

Property, Plant and Equipment is comprised of an automobile, computer and office equipment and is stated at cost less accumulated depreciation. Depreciation of furniture, computer and office equipment is computed over the estimated useful life of the asset, generally five and seven years respectively, utilizing the double declining balance methodology. Depreciation for the leasehold improvements is computed using the straight-line method over the 5 year term of the lease. Upon disposition of assets, the related cost and accumulated depreciation are eliminated and any gain or loss is included in the statement of income. Expenditures for major improvements are capitalized.

Maintenance and repairs are expensed as incurred.

### **e) Income Taxes**

Income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109 Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance to the extent that the recoverability of the asset is unlikely to be recognized. The Company did not provide any current or deferred income tax provision or benefit for any periods presented to date because the Company has continued to experience a net operating loss since inception.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for uncertainty in income taxes an interpretation of FASB statement no. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. The adoption of this standard did not have an effect on the Company's results of operations or financial position.

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**THORIUM POWER, LTD.  
(A Development Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL  
STATEMENTS**

**2. Summary of Significant Accounting Policies (continued)**

**f) Stock-Based Compensation**

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R (FAS-123R), Share-Based Payment, which is a revision of Statement of Financial Accounting Standards No. 123 (FAS-123), Accounting for Stock-Based Compensation. In addition to requiring supplemental disclosures, FAS-123R addresses the accounting for share-based payment transactions in which a company receives goods or services in exchange for (a) equity instruments of the company or (b) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. FAS-123R focuses primarily on accounting for transactions in which a company obtains employee services in share-based payment transactions. The Statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25 (APB-25), Accounting for Stock Issued to Employees, and generally requires that such transactions be accounted for using a fair value based method. Accordingly, pro-forma disclosure is no longer an alternative.

Under FAS-123R, the Company is required to recognize compensation cost for the portion of outstanding awards previously accounted for under the provisions of APB-25 for which the requisite service had not been rendered as of the adoption date for this Statement. The Statement also requires companies to estimate forfeitures of stock compensation awards as of the grant date of the award.

A modified prospective method is used in which compensation cost is recognized beginning with the effective date (a) based on the requirements of FAS-123R for all share-based payments granted after the effective date and (b) based on the requirements of FAS-123 for all awards granted to employees prior to the effective date of FAS-123R that remain unvested on the effective date.

The Company adopted FAS-123R on January 1, 2006, using the modified prospective method. The valuation of the stock issued to consultants for consulting services are valued as of the date of the agreements with the various consultants, which in all cases is earlier than the dates when the services are committed to be performed by the various consultants.

References to the issuances of restricted stock is stock issued to individuals whom are eligible to sell all or some of their shares of restricted common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under the Securities Act ( Rule 144 ), subject to certain limitations. In general, pursuant to Rule 144, a stockholder (or stockholders whose shares are aggregated) who has satisfied a one-year holding period may, under certain circumstances, sell within any three-month period a number of securities which does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume of the class during the four calendar weeks prior to such sale. Rule 144 also permits, under certain circumstances, the sale of securities, without any limitations, by a non-affiliate of our company that has satisfied a two-year holding period.

### **g) Warrants**

Warrants issued in conjunction with equity financing were accounted for under the Emerging Issues Task Force FSP ( EITF ) Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock . In December 2006, the FASB approved FSP EITF 00-19-2 Accounting for Registration Payment Arrangements, which establishes the standard that contingent obligations to make future payments under a registration rights arrangement shall be recognized and measured separately in accordance with Statement 5 and FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss. The adoption of this pronouncement on January 1, 2007 changed the classification of the warrant liability, \$1,132,440 to equity (additional paid in capital).

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# **THORIUM POWER, LTD. (A Development Stage Company)**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **2. Summary of Significant Accounting Policies (continued)**

#### **h) Basic and Diluted Loss per Share**

In accordance with Financial Accounting Standards Board ( FASB ) Statement of Financial Accounting Standard No. 128 ( SFAS 128 ), Earnings Per Share , the basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed in a manner similar to basic loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. At December 31, 2007 and 2006, the Company stock equivalents were anti-dilutive and excluded in the loss per share computation.

#### **i) Impairment Charges**

Unlike goodwill and indefinite-lived intangible assets, the accounting rules do not provide for an annual impairment test in determining whether property, plant, and equipment and finite-lived intangible assets (e.g., patents) are

impaired. Instead, they require that a triggering event occur before testing an asset for impairment. Examples of such triggering events include current-period operating or cash flow loss combined with a history of operating or cash flow losses, a significant disposal of a portion of such assets, an adverse change in the market involving the business employing the related asset, a significant decrease in the benefits realized from an acquired business, difficulties or delays in integrating the business and a significant change in the operations of an acquired business.

Once a triggering event has occurred, the impairment test employed is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. If the intent is to hold the asset for continued use, the impairment test involves a comparison of undiscounted cash flows against the carrying value of the asset as an initial test. If the carrying value of such asset exceeds the undiscounted cash flow, the asset would be deemed to be impaired.

Impairment would then be measured as the difference between the fair value of the fixed or amortizing intangible asset and the carrying value to determine the amount of the impairment. The Company generally determines fair value by using the discounted cash flow method. If the intent is to hold the asset for sale and certain other criteria are met (i.e., the asset can be disposed of currently, appropriate levels of authority have approved sale, and there is an actively pursuing buyer), the impairment test is a comparison of the asset's carrying value to its fair value less costs to sell. To the extent that the carrying value is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference. The Company conducted an impairment test of its Patent at December 31, 2007 and determined that the future undiscounted cash flows associated with the Patent rights were sufficient to recover its carrying value. Assets held for sale are separately presented on the balance sheet and are no longer depreciated.

In November 2005, FASB issued FSP FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments ( FSP 115-1 and 124-1 ), which clarifies when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. It also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 and 124-1 are effective for all reporting periods beginning after December 15, 2005. Implementation of these FSPs did not have a significant impact on the Company's consolidated financial position or results of operations.

## **j) Comprehensive Income**

Comprehensive income consists of net income and other gains and losses affecting shareholders' equity that, under generally accepted accounting principles are excluded from net income. For the Company, such items consist primarily of unrealized gains and losses on marketable debt securities, which the Company has classified as cash equivalents, as their maturities are three months or less.

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## **THORIUM POWER, LTD. (A Development Stage Company)**

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## 2. Summary of Significant Accounting Policies (continued)

### k) Development Stage Enterprise

The Company's consolidated financial statements are prepared using the accrual method of accounting and according to the provisions of Statement of Financial Accounting Standards No. 7 ( SFAS 7 ), Accounting and Reporting for Development Stage Enterprises, as we are devoting substantially all of our efforts to developing our nuclear fuel designs. Until such designs are developed and significant revenue is derived from these nuclear fuel designs or other revenue sources, we will continue to prepare our consolidated financial statements and related disclosures in accordance with entities in the development stage.

### l) Revenue Recognition

*Revenue* at the present time we are deriving our revenue from fees by offering consulting and strategic advisory services to foreign governments planning to create or expand electricity generation capabilities using nuclear power. Our fee type and structure for each client engagement will depend on a number of variables, including the size of the client, the complexity, the level of the opportunity for us to improve the client's electricity generation capabilities using nuclear power plants and other factors.

We entered into one consulting contract in 2007, where the consulting fee was fixed and determinable under the contract. We do not anticipate breaching the contract but in the event that we do breach the contract, such as not deliver the final report to the foreign government, the consulting fee could be refundable under the provision of the contract. Therefore, the consulting fee revenue from this contract is being recognized on the completed performance model. We expect that revenue recognition will occur in 2008, when the delivery of the final feasibility report to the government or some other evidence of completion of the project is evident.

The total consulting revenue to be recognized under this contract is \$3,793,125 and this was the balance in the deferred revenue balance sheet account at December 31, 2007, as no revenue from this contract had been recognized in 2007. All costs directly related to producing the final report or completion of this project, such as consulting costs and administrative support costs, will be capitalized as deferred project costs (current asset) and will be recognized as expense when the project is completed, the final report is delivered to the government and when the entire revenue is recognized from completion of the project. Travel and other reimbursable costs are offset against the balance sheet account customer deposit as they occur, which is shown along with the account deferred revenue, as a current liability on the balance sheet. There were not travel and other reimbursable expenses billed to the Company at December 31, 2007. Total deferred project costs at December 31, 2007 totaled \$371,631.

All of the Company's revenue to date from January 8, 1992 (Inception) to December 31, 2007 had been derived from licensing fees from nuclear industry commercial partners.

Once the company's Thorium nuclear fuel designs have advanced to a commercially usable stage the company will seek to license its technology to major government contractors or nuclear companies, working for the US and other governments. We expect that our revenue from license fees will be recognized on a straight-line basis over the expected period of the related license term.

Total subsidies and grants from the US government totaled approximately \$5.45 million, cumulative from January 8, 1992 (Inception) to December 31, 2007. These amounts were not paid to us but paid directly from the US government to third party research and development companies that worked on our nuclear project, as well as other projects.



## **m) Government Grants**

Receipts of government grants to encourage research and development activities which are non-refundable will be credited to deferred income upon receipt. Government grants are used either for purchases of assets or to subsidize the research and development expenses incurred.

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## **THORIUM POWER, LTD. (A Development Stage Company)**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **2. Summary of Significant Accounting Policies (continued)**

For purchases of assets, government grants are deducted from the carrying amount of the assets. For the research and development expenses, the Company matches and offsets the government grants with the expenses of the research and development activities as specified in the grant approval document in the corresponding period when such expenses incurred.

#### **n) Segment Reporting**

The Company uses the management approach in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company's reportable segments. The Company has determined that the Company has one operating segment as defined by SFAS 131, Disclosures about Segments of an Enterprise and Related Information .

#### **o) Commitments and Contingencies**

Liabilities for loss contingencies arising from various claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

#### **p) Recently Issued Accounting Standards**

*FASB Interpretation No. ( FIN ) 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109.* In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in tax positions. This Interpretation requires the Company recognizes in its consolidated financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 were effective for the Company on January 1, 2007. FIN 48 has not had an impact on its

consolidated financial statements.

*SFAS 157, Fair Value Measurements.* In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, where fair value is the relevant measurement attribute. The standard does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

*SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities.* In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS No. 159 ). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and will become effective for the Company beginning with the first quarter of 2008. The Company has not yet determined the impact of the adoption of SFAS No. 159 on its financial statements and footnote disclosures.

The Company is currently evaluating the effect of other new accounting pronouncements on its future statements of financial position and results of operations.

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**THORIUM POWER, LTD.  
(A Development Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL  
STATEMENTS**

**2. Summary of Significant Accounting Policies (continued)**

**q) Intangible Assets Patents**

Patents are stated in the balance sheet at cost less accumulated amortization. The costs of the patents are amortized on a straight-line basis over their estimated useful lives. The amortization period for our patents range between 17 20 years.

## r) Retirement 401K Plan

We have a 401(k) savings plan that was set up in 2006 covering substantially all of our employees. Eligible employees may contribute through payroll deductions. There were no Company matching contributions made to the 401(k) savings plan in 2007 and 2006.

## 3. Financial Status of the Company December 31, 2007

Management anticipates, based on its current projected working capital requirements, that it will have enough working capital funds to sustain its current operations at its current operating level, until sometime during the first quarter of 2009. The Company anticipates generating revenue from its present and future consulting contracts it currently anticipates it will obtain in 2008. If future consulting contracts are not obtained, the Company would have to rely on future issuances of its stock or incur debt, in order to provide funds to continue its operations into 2009 and beyond.

## 4. Research and Development Costs

Research and development costs, included under the caption general and administrative expenses in the statement of operations amounted to \$756,755 and \$34,400 for the years ended December 31, 2007 and 2006, respectively and \$4,683,313 from January 8, 1992 (Inception) to December 31, 2007.

## 5. Property Plant and Equipment

The following represents the detail of the Company's property, plant and equipment at December 31, 2007 and 2006:

	2007	2006
Furniture, computer and office equipment	\$ 42,809	\$ 24,840
Automobile	22,217	22,217
Total Cost	65,026	47,057
Accumulated Depreciation	(34,350 )	(25,767 )
Net Book Value	\$ 30,676	\$ 21,290

Depreciation expense for the years ended December 31, 2007 and 2006 was \$8,583 and \$10,886, respectively.

## 6. Intangible Assets Patents

Patents represent legal fees and filing costs that are capitalized and amortized over their estimated useful lives of 17 to 20 years. There were no patents placed in service for the years ended December 31, 2007 and 2006.

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# THORIUM POWER, LTD. (A Development Stage Company)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. Intangible Assets Patents (continued)

The following table summarizes the lives and carrying values of the Company's patents at December 31, 2007 and 2006:

	2007	2006
Patents	\$ 411,669	\$ 411,669
Accumulated Amortization	(193,794)	(193,794)
Net Book Value	\$ 217,875	\$ 217,875

Amortization expense of patents was \$- and \$- for the years ended December 31, 2007 and 2006 and \$193,794 for the cumulative period from January 8, 1992 (Inception) to December 31, 2007. These patents were not placed in service for the years ended December 31, 2007 and 2006.

## 7. Stockholders' Equity

Total Common stock outstanding at December 31, 2007 was 299,014,182. At December 31, 2007, there were 768,834 stock purchase warrants and 51,354,656 stock options outstanding, all totaling 351,137,672 of total stock and stock equivalents outstanding at December 31, 2007.

### a) Common Stock Issuances Consultants and Others

During the year ended December 31, 2007, the Company issued 808,916 shares, valued at an average stock price of \$0.29 per share for total consideration of \$233,883, to directors and consultants for services rendered in 2007. There were also 885,534 shares issued to stock option holders, who exercised their stock options through the cashless exercise feature in accordance to their individual stock option agreements. An additional 128,139 shares were issued pursuant to the Merger Agreement, after the merger date, for Thorium Power, Inc. shareholders that were not reflected in the Thorium Power, Inc. stockholders list, at the merger date. This stock issuance of 128,139 shares was recorded as a stock settlement expense which totaled \$37,160, valued at the stock price of \$0.29 per share, valued at the date the Company was first made aware of these shares being outstanding, that were not accounted for in their stock records. The Company reviewed these share certificates and determined that they were valid stock certificates and settled this matter, post merger, by issuing the equivalent Thorium Power, Ltd. shares to these stockholders.

In addition, the Company has in place a stock-based compensation plan to reward for services rendered by officers, directors, employees and consultants. The Compensation Committee of the Board of Directors on December 5, 2007 had unanimously voted to issue 1,022,927 shares of restricted stock as a year end 2007 bonus to its officers, directors, advisory board, employees and consultants, for total stock compensation of \$358,024, or \$0.35 per share valuation on the date of the stock grant.

In January, 2007 the company redeemed 1,650,000 shares of common stock from its executive officers in order to satisfy the payroll tax withholding obligations of the Company owed on their stock based compensation issued in 2006, total redemption amount of \$331,500. At December 31, 2007 the company was anticipating the redemption in 2008 of an additional 321,284 shares for taxes due on 803,209 of the above mentioned 1,022,927 shares of stock grant to officers and employees. The redemption price of these shares will be equal to the \$281,123 at which they were valued for measuring compensation cost.

## **b) Common Stock Treasury Stock**

At December 31, 2006, 850,000 shares had been repurchased at the average approximate price of \$0.30 per share, total \$255,850. The Company valued all shares repurchased in the twelve month period ended December 31, 2006 using the traded quoted market price of the Company's common stock as of the applicable date of repurchase. These shares were held as Treasury Stock as of December 31, 2006 and were subsequently retired in 2007 and put back into the company's authorized shares available for re-issuance.

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## **THORIUM POWER, LTD. (A Development Stage Company)**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **7. Stockholders' Equity (continued)**

##### **c) Common Stock Issued with Registration Rights**

On May 4, 2006, the Company completed a private placement with certain investors in which it sold an aggregate of 36,659,837 units, consisting of 36,659,837 shares of its restricted common stock and 18,329,98 common stock purchase warrants for \$15,580,431. Each unit consists of one share of common stock and one-half of a non-transferable share purchase warrant. Each whole warrant entitles the holder of the warrant to acquire one additional share of common stock at a price of \$0.65 per share and expires twelve months from the closing date of the subscription expiration date or term subsequently extended 6 months.

Under the terms of the sale, the investors were granted registration rights in which the Company agreed to timely file a registration statement to register the common shares and the shares underlying the warrants, obtain effectiveness of the registration statement by the SEC on or before September 1, 2006, and maintain the effectiveness of this registration statement for a pre-set time thereafter. In the event the Company failed to timely perform under the registration rights agreement, the Company agreed to pay the investors liquidated damages in an amount equal to 2% of the aggregate amount invested by the investors for each 30-day period or pro rata for any portion thereof following the date by which the registration statement should have been effective. The initial registration statement was timely filed, however it was not declared effective by the SEC within the allowed time. Accordingly, the Company is liable to the investors for liquidated damages under the registration rights agreement. The Company paid this liability in 2006 and 2007. In 2007 the Company issued 717,120 shares of stock to certain investors and recognized in other income and expenses, in its statements of operations under the caption Registration Rights Expense, an amount of approximately \$21,440 for unpaid liquidated damages that were not accrued for at December 31, 2006.

The SEC concluded that under EITF 00-19, common stock and warrants subject to registration rights where significant liquidated damages could be required to be paid to the holder of the instrument in the event the issuer fails to maintain the effectiveness of a registration statement for a preset time period, the common stock subject to such

liquidated damages does not meet the tests required for shareholders' equity classification, and accordingly must be reflected between liabilities and shareholders' equity in the balance sheet until the conditions are eliminated. In analyzing instruments under EITF 00-19, the likelihood or probability related to the failure to maintain an effective registration statement is not a factor.

Based on the above interpretation, as of May 4, 2006, the Company classified \$12,041,373 for the value of common stock subject to registration rights as temporary equity instead of shareholders' equity at December 31, 2006. In addition, the Company measured the initial fair value of the warrants on May 4, 2006 at \$3,539,058 and classified at that date the fair value of the warrants as warrant liability instead of shareholders' equity. The fair value of the warrants at December 31, 2006 was \$1,132,440. As of January 1, 2007, this amount was reclassified to additional paid-in capital pursuant to FSP EITF 00-19-2.

#### **d) Share-based Compensation**

The Company has in place a stock-based compensation plan to reward for services rendered by officers, directors, employees and consultants. On July 17, 2006, the Company amended this stock plan. The Company has reserved 75,000,000 shares of common stock of its unissued share capital for the stock plan. Other limitations are as follows:

- (i) No more than an aggregate of 37,500,000 shares can be granted for the purchase of restricted common shares during the term of the stock plan (2 million shares issued under the plan up to December 31, 2007);
- (ii) The maximum number of shares of common stock with respect to which options may be granted to any one person during any fiscal year of the Company may not exceed 8,000,000 shares; and

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## **THORIUM POWER, LTD. (A Development Stage Company)**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **7. Stockholders' Equity (continued)**

- (iii) The maximum number of restricted shares that may be granted to any one person during any fiscal year of the company may not exceed 5,000,000 common shares.

On January 1, 2006, the Company adopted FAS-123R. In March 2005, the SEC staff expressed its view with respect to FAS-123R in Staff Accounting Bulletin No. 107, Share-Based Payment ( SAB 107 ). SAB 107 provides guidance on valuing options. Prior to January 1, 2006, the Company accounted for share-based payments under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ), and related Interpretations, as permitted by FAS-123. In accordance with APB 25, no compensation cost was required to be recognized for options granted that had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company adopted FAS-123R using the modified-prospective-transition method. Under that transition method, compensation cost recognized in future interim and annual reporting periods includes: a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of FAS-123, and b) compensation cost for

all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of FAS-123R.

The adoption of FAS-123R had no effect on cash flow from operations or cash flow from financing activities for the year ended December 31, 2006. FAS-123R requires the cash flows from tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options ( excess tax benefits ) to be classified as financing cash flows. Prior to the adoptions of FAS-123R, excess tax benefits would have been classified as operating cash inflows.

The Company has not recognized, and does not expect to recognize in the near future, any tax benefit related to stock-based compensation costs as a result of the full valuation allowance on our net operating loss carry forwards.

The Company recognizes share-based compensation expense for all service-based awards with graded vesting schedules on a straight-line basis over the requisite service period for the entire award. Initial accruals of compensation expense are based on the estimated number of shares for which requisite service is expected to be rendered. Estimates are revised if subsequent information indicates that forfeitures will differ from previous estimates, and the cumulative effect on compensation cost of a change in the estimated forfeitures is recognized in the period of the change.

For awards with service conditions and graded vesting that were granted prior to the adoption of FAS-123R, the Company estimates the requisite service period and the number of shares expected to vest and recognize compensation expense for each tranche on a straight-line basis over the estimated requisite service period of the award or over a period ending with an employee's eligible retirement date, if earlier. Adjustments to compensation expense as a result of revising the estimated requisite service period are recognized prospectively.

Total stock options outstanding at December 31, 2007 were 51,354,656 and 25,619,936 of these total options were vested at December 31, 2007.

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**THORIUM POWER, LTD.  
(A Development Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL  
STATEMENTS**

**7. Stockholders' Equity (continued)**

Stock option transactions to the employees, directors, advisory board members and consultants are summarized as follows:

	2007	2006
Stock Options Outstanding		
Beginning of the Year/Thorium Power, Ltd. Options	22,567,242	22,567,242
Thorium Power, Inc. Options Outstanding (assumed in merger)	11,062,163	12,011,751

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Granted	18,225,251	
Forfeited	(500,000 )	
Outstanding end of the year	51,354,656	34,578,993
Options exercisable at the end of the year	25,619,936	14,839,111

The above table includes options issued as of December 31, 2007 as follows:

(i) A total of 13,004,742 non-qualified 5 – 10 year options have been issued by Thorium Power, Ltd., to advisory board members at exercise prices of \$0.30 to \$0.64 per share.

(ii) A total of 31,552,636 5 – 10 year options have been issued to directors, officers and employees of the Company, at exercise prices of \$0.24 to \$0.80 per share. From this total, 18,619,906 options are outstanding to the Chief Executive Officer who is also a director, with remaining contractual lives of 1 – 9.9 years. All other options issued have a remaining contractual life ranging from 4.75 years to 9.9 years.

(iii) A total of 6,797,278 non-qualified 3 – 10 year options have been issued to consultants of the Company, at exercise prices of \$0.16 to \$0.35 per share.

The following table provides certain information with respect to the above-referenced stock options that are outstanding and exercisable at December 31, 2007: