

Thorium Power, Ltd  
Form 10QSB  
May 10, 2007

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U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-QSB**

(Mark One)

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

For the quarterly period ended: March 31, 2007

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

For the transitional period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File No. 000-28543**

**THORIUM POWER, LTD.**

-----  
(Name of Small Business Issuer in Its Charter)

NEVADA  
(State or other jurisdiction of  
incorporation or organization)

91-1975651  
(I.R.S. Employer Identification No.)

8300 Greensboro Drive, Suite 800  
McLean, Virginia 22102  
(Address of Principal Executive Office)

703.918.4904  
(Issuer Telephone No. Including Area  
Code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No o.

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

The number of shares outstanding of each of the issuer's classes of common equity, as of May 4, 2007 are as follows:

Class of Securities  
Common Stock, \$0.001 par value

Shares Outstanding  
297,692,991

Transitional Small Business Disclosure Format (check one): Yes o No x

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**ITEM 1. FINANCIAL STATEMENTS**

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**Thorium Power, Ltd.**  
**(A Development Stage Company)**  
**Condensed Consolidated Balance Sheets**

|                                                                                                                                                                                                                                        | (Unaudited)<br>March 31,<br>2007 | (Audited)<br>December 31<br>2006 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|
| <b>ASSETS</b>                                                                                                                                                                                                                          |                                  |                                  |
| <b>Current Assets</b>                                                                                                                                                                                                                  |                                  |                                  |
| Cash and cash equivalents                                                                                                                                                                                                              | \$ 9,026,195                     | \$ 10,927,775                    |
| Prepaid expenses & other current assets                                                                                                                                                                                                | 146,667                          | 394,443                          |
| Total Current Assets                                                                                                                                                                                                                   | 9,172,862                        | 11,322,218                       |
| Property Plant and Equipment -net                                                                                                                                                                                                      | 20,312                           | 21,290                           |
| <b>Other Assets</b>                                                                                                                                                                                                                    |                                  |                                  |
| Patent costs - net                                                                                                                                                                                                                     | 217,875                          | 217,875                          |
| Security deposits                                                                                                                                                                                                                      | 2,049                            | 2,049                            |
| Total Other Assets                                                                                                                                                                                                                     | 219,924                          | 219,924                          |
| <b>Total Assets</b>                                                                                                                                                                                                                    | <b>\$ 9,413,098</b>              | <b>\$ 11,563,432</b>             |
| <b>Liabilities and Stockholders' Deficiency</b>                                                                                                                                                                                        |                                  |                                  |
| <b>Current Liabilities</b>                                                                                                                                                                                                             |                                  |                                  |
| Current portion long term debt                                                                                                                                                                                                         | \$ 4,449                         | \$ 4,739                         |
| Accounts payable and accrued liabilities                                                                                                                                                                                               | 947,866                          | 1,121,083                        |
| Other current liabilities                                                                                                                                                                                                              | 0                                | 347,690                          |
| Warrant liability                                                                                                                                                                                                                      | 0                                | 1,132,440                        |
| Total Current Liabilities                                                                                                                                                                                                              | 952,315                          | 2,605,952                        |
| Notes Payable - long term                                                                                                                                                                                                              | 9,296                            | 10,433                           |
| <b>Total Liabilities</b>                                                                                                                                                                                                               | <b>961,611</b>                   | <b>2,616,385</b>                 |
| Commitments and contingencies                                                                                                                                                                                                          |                                  |                                  |
| <b>Common Stock with Registration Rights</b>                                                                                                                                                                                           |                                  |                                  |
| Common Stock subject to continuing registration, \$0.001 par value,<br>36,659,837 shares issued<br>and outstanding at March 31, 2007 and December 31, 2006                                                                             |                                  |                                  |
|                                                                                                                                                                                                                                        | 12,041,373                       | 12,041,373                       |
| <b>Stockholders' Deficiency</b>                                                                                                                                                                                                        |                                  |                                  |
| Preferred stock, \$0.001 par value, 50,000,000 authorized shares, no shares<br>issued and outstanding                                                                                                                                  | 0                                | 0                                |
| Common stock, \$0.001 par value, 500,000,000 authorized, 260,340,554<br>shares issued and 259,490,554 shares outstanding at March 31, 2007 and<br>257,291,709 shares issued and 256,441,709 shares outstanding at<br>December 31, 2006 | 260,341                          | 257,292                          |
| Additional paid in capital - stock and stock equivalents                                                                                                                                                                               | 26,460,130                       | 23,148,560                       |
| Deficit accumulated during the development stage                                                                                                                                                                                       | (29,955,382)                     | (27,177,989)                     |

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|                                                                                                                     |                     |                      |
|---------------------------------------------------------------------------------------------------------------------|---------------------|----------------------|
| Common stock reserved for issuance, 1,000,000 shares at March 31, 2007<br>and 4,000,000 shares at December 31, 2006 | 350,000             | 1,200,000            |
| Accumulated other comprehensive income                                                                              | 27,581              | 18,861               |
| Deferred stock compensation                                                                                         | (476,706)           | (285,200)            |
| Treasury stock - 850,000 shares                                                                                     | (255,850)           | (255,850)            |
| <b>Total Stockholders' Deficiency</b>                                                                               | <b>(3,589,886)</b>  | <b>(3,094,326)</b>   |
| <b>Total Liabilities and Stockholders' Deficiency</b>                                                               | <b>\$ 9,413,098</b> | <b>\$ 11,563,432</b> |

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

**Thorium Power, Ltd.**  
**(A Development Stage Company)**  
**Condensed Consolidated Statements of Operations and Comprehensive Loss**  
**(Unaudited)**

|                                                                                                    | Three Months Ended<br>March 31, |                   | Cumulative<br>Period from<br>January 8, 1992<br>(Inception) to<br>March 31,<br>2007 |
|----------------------------------------------------------------------------------------------------|---------------------------------|-------------------|-------------------------------------------------------------------------------------|
|                                                                                                    | 2007                            | 2006              |                                                                                     |
| <b>Revenue:</b>                                                                                    |                                 |                   |                                                                                     |
| License revenue                                                                                    | \$ 0                            | \$ 0              | \$ 624,985                                                                          |
| <b>Total Revenue</b>                                                                               | <b>0</b>                        | <b>0</b>          | <b>624,985</b>                                                                      |
| <b>Operating Expenses</b>                                                                          |                                 |                   |                                                                                     |
| General and administrative                                                                         | 1,554,462                       | 330,973           | 14,709,023                                                                          |
| Research and development expenses                                                                  | 0                               | 0                 | 3,926,558                                                                           |
| Stock-based compensation                                                                           | 1,335,517                       | 0                 | 12,697,134                                                                          |
| <b>Total Operating Loss</b>                                                                        | <b>2,889,979</b>                | <b>330,973</b>    | <b>30,707,730</b>                                                                   |
| <b>Other (Income) and Expenses</b>                                                                 |                                 |                   |                                                                                     |
| Gain on fair value of warrant derivatives                                                          | 0                               | 0                 | (1,902,286)                                                                         |
| Other (income)/expense                                                                             | (112,586)                       | 866               | (259,415)                                                                           |
| Stock settlement expense                                                                           | 0                               | 0                 | 92,260                                                                              |
| Registration right expense                                                                         | 0                               | 0                 | 353,706                                                                             |
| Warrant expense                                                                                    | 0                               | 0                 | 963,387                                                                             |
| <b>Total Other (Income) and Expenses</b>                                                           | <b>(112,586)</b>                | <b>866</b>        | <b>(752,348)</b>                                                                    |
| <b>Net Loss</b>                                                                                    | <b>\$ 2,777,393</b>             | <b>\$ 331,839</b> | <b>\$ 29,955,382</b>                                                                |
| <b>Other Comprehensive Income (Loss)</b>                                                           |                                 |                   |                                                                                     |
| Unrealized Gain Marketable Securities                                                              | 8,720                           | 0                 | 27,581                                                                              |
| <b>Total Comprehensive Loss</b>                                                                    | <b>\$ 2,768,673</b>             | <b>\$ 331,839</b> | <b>\$ 29,927,801</b>                                                                |
| <b>Net Loss Per Common Share, Basic and diluted</b>                                                | <b>\$ 0.01</b>                  | <b>\$ 0.00</b>    |                                                                                     |
| <b>Weighted Average Number of shares outstanding for the period used to compute per share data</b> | <b>295,165,399</b>              | <b>94,567,069</b> |                                                                                     |

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

**Thorium Power, Ltd.**  
**(A Development Stage Company)**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

|                                                                                             | 3 Months Ended |              | Cumulative<br>amounts               |
|---------------------------------------------------------------------------------------------|----------------|--------------|-------------------------------------|
|                                                                                             | March 31,      |              | January 8, 1992                     |
|                                                                                             | 2007           | 2006         | (Inception)<br>to March 31,<br>2007 |
| <b>Operating Activities</b>                                                                 |                |              |                                     |
| Net Loss for the period                                                                     | \$ (2,777,393) | \$ (331,839) | \$ (29,955,382)                     |
| Adjustments to reconcile net loss from operations to net cash used in operating activities: |                |              |                                     |
| Shares issued for other than cash for payment of expenses                                   | 1,430,673      | 0            | 12,880,539                          |
| Gain on fair value of warrant liability                                                     | 0              | 0            | (1,902,286)                         |
| Depreciation and Amorization                                                                | 978            | 6,564        | 358,189                             |
| Unrealized Gain Marketable Securities                                                       | 8,720          | 0            | 8,720                               |
| Gain or loss on disposition of assets                                                       | 0              | 0            | 86,855                              |
| Capitalization of Share Issue costs                                                         | 0              | 0            | (441,553)                           |
| Warrant Expense                                                                             | 0              | 0            | 963,387                             |
| Settlement Expense                                                                          | 0              | 0            | 92,260                              |
| Allocated general and administrative expenses - contributed capital                         | 0              | 0            | 290,769                             |
| Changes in non-cash operating working capital items:                                        |                |              |                                     |
| Prepaid expenses and other current assets                                                   | 247,776        | 2,987        | (29,283)                            |
| Accounts payable accrued liabilities and other current liabilities                          | (810,907)      | (517,318)    | 210,061                             |
| Other assets                                                                                | 0              | 0            | 5,518                               |
| Net Cash (Used In) Operating Activities                                                     | (1,900,153)    | (839,606)    | (17,432,206)                        |
| <b>Investing Activities</b>                                                                 |                |              |                                     |
| Purchase of equipment                                                                       | 0              | (1,057)      | (285,145)                           |
| Proceeds from the sale of equipment                                                         | 0              | 0            | 13,583                              |
| Acquisition of patents                                                                      | 0              | (300)        | (411,669)                           |
| Other assets                                                                                | 0              | 0            | (7,567)                             |
| Net Cash (Used In) Investing Activities                                                     | 0              | (1,357)      | (690,798)                           |
| <b>Financing Activities</b>                                                                 |                |              |                                     |
| Proceeds from Issue of common shares                                                        | 0              | 1,543,774    | 14,498,016                          |
| Payments on notes payable and other                                                         | (1,427)        | (1,011)      | 13,744                              |
| Proceeds of loan - related party                                                            | 0              | (28,430)     | 384,690                             |
| Repayment of loan - related party                                                           | 0              | 0            | (239,659)                           |
| Purchase of treasury stock                                                                  | 0              | 0            | (255,850)                           |
| Other                                                                                       | 0              | 0            | 5,850                               |
| Cash acquired in recapitalization of Thorium Power Inc.                                     | 0              | 0            | 12,742,408                          |
| Net Cash Provided By (Used In) Financing Activities                                         | \$ (1,427)     | \$ 1,514,333 | \$ 27,149,199                       |

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|                                                  |    |             |    |         |    |           |
|--------------------------------------------------|----|-------------|----|---------|----|-----------|
| Net Increase In Cash and Cash Equivalents        | \$ | (1,901,580) | \$ | 673,370 | \$ | 9,026,195 |
| Cash and Cash Equivalents, Beginning Of Period   |    | 10,927,775  |    | 283     |    | 0         |
| Cash and Cash Equivalents, End Of Period         | \$ | 9,026,195   | \$ | 673,653 | \$ | 9,026,195 |
| Supplemental Disclosure of Cash Flow Information |    |             |    |         |    |           |
| Cash paid during the year:                       |    |             |    |         |    |           |
| Interest paid                                    | \$ | 323         | \$ | 566     | \$ | 3,292     |
| Income taxes paid                                | \$ | -           | \$ | -       | \$ | -         |
| Non-cash transactions                            |    |             |    |         |    |           |
| Conversion of liabilities to equity              | \$ | 1,166,440   | \$ | 4,100   | \$ | 1,269,640 |

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

**Thorium Power, Ltd.**  
**(A Development Stage Company)**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2007**

1. BASIS OF PRESENTATION

The unaudited financial information of Thorium Power, Ltd. (formerly, Novastar Resources Ltd.) (the “Company”) and subsidiaries furnished herein has been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) and reflects all adjustments, which in the opinion of management are necessary to fairly state the Company's interim financial position and the results of its operations for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted from these statements pursuant to such rules and regulations and, accordingly, this report on Form 10-QSB should be read in conjunction with the Company's financial statements and notes thereto included in the Company's Form 10-KSB for the fiscal year ended December 31, 2006. The Company assumes that the users of the interim financial information herein have read or have access to the audited financial statements for the preceding fiscal year and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. Accordingly, footnote disclosure, which would substantially duplicate the disclosure contained in the Company's Form 10-KSB for the fiscal year ended December 31, 2006, has been omitted. The results of operations for the three-month period ended March 31, 2007 are not necessarily indicative of results for the entire fiscal year ending December 31, 2007.

2. 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.

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 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.

Our nuclear fuel process is dependent on the ability of suppliers of the mineral thorium, to provide it to our future customers on a timely basis and also on favorable pricing terms. The loss of certain principal suppliers of thorium or a significant reduction in thorium availability from principal suppliers could have a material adverse effect on the future operating results of the Company.

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.

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, therefore, based on our current operations, prepare our accompanying consolidated financial statements as a Development Stage Enterprise.

3. 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), collectively the ("Company").

**Thorium Power, Ltd.**  
**(A Development Stage Company)**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2007**

On October 6, 2006, a merger took place between Thorium Power, Ltd. and Thorium Power, Inc. 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. Accordingly, all references to common shares of Thorium Power Inc.'s common stock have been restated to reflect the equivalent number of Thorium Power, Ltd.'s common shares.

All significant intercompany 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, accrued liquidation damages pursuant to the Registration Right Agreement for the May 4, 2006 private placement, 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) Prior Year Reclassifications

Certain reclassifications have been made to our prior years' financial statements in order to conform to the current year presentation. On our Statement of Operations, certain general and administrative expenses were combined into the one expense caption called general and administrative expenses. These reclassifications had no effect on previously reported results of operations or accumulated deficit of Thorium Power, Inc.

d) Warrants - Adoption of New Accounting Pronouncement

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 Company has evaluated the effect of how FSP EITF 00-19-2 and FSP EITF Topic D-98 affected these accompanying financial statements. The adoption of FSP EITF 00-19-2 accounting pronouncement on January 1, 2007 changed the classification of the warrant liability, a total of \$1,132,440, to stockholders' equity (additional paid in capital).

4. Financial Status and Going Concern Considerations - March 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 calendar

quarter of 2008. The Company will therefore need to raise additional capital in 2007, either by having future issuances of its stock or incurring debt in 2007 in order to provide the additional working capital funds required to continue its operations into 2008 and beyond.

5. Research and Development Costs

Research and development costs, amounted to \$ - and \$- for the three months ended March 31, 2007 and 2006, respectively and \$3,926,558 from January 8, 1992 (Inception) to March 31, 2007.

6. Stockholders' Equity

Total Common stock outstanding at March 31, 2007 was 296,150,391 (including 36,659,837 shares of common stock with registration rights). There were also 850,000 shares that were held as Treasury stock at March 31, 2007, bringing the total number of shares issued to 297,000,391. At March 31, 2007, there were 25,282,745 stock purchase warrants and 30,869,910 stock options outstanding, all totaling 353,153,046 of total stock and stock equivalents outstanding March 31, 2007.

**Thorium Power, Ltd.**  
**(A Development Stage Company)**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2007**

a). Common Stock Issued With Registration Rights - Temporary Equity

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 18,329,918 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 was liable to the investors for liquidated damages under the registration rights agreement.

The EITF is currently reviewing the accounting for securities with liquidated damages clauses as stated in EITF 05-04, The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument subject to EITF 00-19. There are currently several views as to how to account for this type of transaction and the EITF has not yet reached a consensus. In accordance with EITF 00-19, Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled in the Company's Own Stock, and EITF 05-04, because of the potential liquidated damages for failure to obtain and maintain an effective registration statement is substantial, the value of the common stock subject to such registration rights should be classified as temporary equity. Additionally, in accordance with EITF 00-19 and the terms of the above warrants, the fair value of the warrants was recorded as a liability, with an offsetting reduction to shareholders' equity. The warrant liability is initially measured at fair value using the Black Scholes option pricing model, and was then re-valued at each reporting date, with changes in the fair value reported as non-cash charges or credits to earnings reported as gain/loss on fair value of warrant derivatives.

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. 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.

At the end of each reporting period, the value of these warrants was re-measured based on the fair value of the underlying shares, and changes to the warrant liability and related “gain or loss in fair value of the warrants” was recorded as a non-cash charge or credit to earnings. The warrant liability was reclassified to shareholders' equity when the Company adopted a new accounting pronouncement FSP 00-19-2 as mentioned above in 2007.

b) Share-based Compensation

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**Thorium Power, Ltd.**  
**(A Development Stage Company)**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2007**

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 37,500,000 options can be granted for the purchase of restricted common shares.
- ii). No more than 8,000,000 options can be granted to any one person during any one fiscal year.
- iii). No more than 5,000,000 restricted common shares can be granted to any one person during any one fiscal year.

On January 1, 2006, the Company adopted FAS-123R. In March 2005, the SEC staff expressed their views with respect to FAS-123R in Staff Accounting Bulletin No. 107, Share-Based Payment ("SAB 107"). SAB 107 provides guidance on valuing options. The impact of adopting FAS-123R for the year ended December 31, 2006 was to record a non-cash compensation expense of \$2,184,001, of which \$937,619 was allocated prior to the merger from Thorium Power, Ltd. for services rendered on behalf of Thorium Power, Inc. 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 three months ended March 31, 2007. 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 adoption 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 recognizes 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 March 31, 2007 were 30,869,910 and 13,887,623 of these total options were vested at March 31, 2007.

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

|                                              | March 31, 2007 |
|----------------------------------------------|----------------|
| <b>Stock Options Outstanding</b>             |                |
| Outstanding - Beginning of Period            | 34,578,993     |
| Issued                                       | 2,686,412      |
| Expired                                      | (6,395,495)    |
| Forfeited                                    | —              |
| Outstanding end of the period                | 30,869,910     |
| Options exercisable at the end of the period | 13,887,623     |

The above table includes options issued and outstanding as of March 31, 2007 from Thorium Power, Ltd. as follows:

**Thorium Power, Ltd.**  
**(A Development Stage Company)**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2007**

- i). A total of 2,200,000 non-qualified 10 year options have been issued by Thorium Power, Ltd., to advisory board members at exercise prices of \$0.33 to \$0.64 per share.
- ii). A total of 5,500,000 non-qualified 5 year options have been issued to advisory board members at an exercise price of \$0.445 per share and a weighted average of \$0.445; and
- iii). A total of 17,403,654 non-qualified 2 year, 5 year and 10 year options have been issued to directors and officers of the Company, at exercise prices of \$0.30 to \$0.80 per share. From this total, 7,200,000 options were issued to the Chief Executive Officer who is also a director, on February 14, 2006, with a remaining contractual life of 8.8 years. On January 16, 2007 our Chief Executive Officer was issued 1,486,412 options to replace the same number of stock options he was granted from Thorium Power, Inc., prior to the merger, that were expiring January 2007. The exercise price of these options was increased from its original strike price of \$0.39 per share to \$0.50 per share with a new contractual life of 2 years. Also from the total options cited above, 1 million options were issued to our Chief Operating Officer, pursuant to an employment agreement, on February 1, 2007 at an exercise price of \$0.35 per share, vesting over 4 years with the first 6 months vesting on August 1, 2007, with a contractual term of 10 years.

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

| Exercise Prices | Stock Options Outstanding |                                                     | Stock Options Vested |                                 |
|-----------------|---------------------------|-----------------------------------------------------|----------------------|---------------------------------|
|                 | Number of Awards          | Weighted Average Remaining Contractual Life - Years | Number of Awards     | Weighted Average Exercise Price |
| \$0.16 - \$0.20 | 5,766,256                 | 3.34                                                | 5,766,256            | \$ 0.16                         |
| \$0.30-\$0.39   | 2,692,242                 | 6.18                                                | 756,132              | \$ 0.33                         |
| \$0.45-\$0.51   | 13,211,412                | 6.31                                                | 4,706,900            | \$ 0.48                         |
| \$0.64-\$0.80   | 9,200,000                 | 8.92                                                | 2,658,335            | \$ 0.77                         |
| Total           | 30,869,910                | 6.5                                                 | 13,887,623           | \$ 0.49                         |

Assumptions used in the Black Scholes option-pricing model are as follows:

The aggregate intrinsic value of stock options outstanding at March 31, 2007 was \$888,003 of which \$888,003 relates to vested awards. Intrinsic value is calculated based on the difference between the exercise price of the underlying awards and the quoted price of our common stock as of the reporting date (\$0.31 per share as of March 31, 2007)

**March 31, 2007**

|                                 |             |
|---------------------------------|-------------|
|                                 | 4.18% -     |
| Average risk-free interest rate | 4.45%       |
| Average expected life           | 5 years     |
| Expected volatility             | 107% - 275% |
| Expected dividends              | 0%          |

During the three months ended March 31, 2007, \$1,374,406 was recorded as stock-based compensation expense in the statement of operations. The result of all the above stock option grants included in stock-based compensation in the statement of operations, totaled \$1,177,023 for the three months ended March 31, 2007 (non-deductible for tax purposes, may provide a tax deduction for the Company when exercised). Stock compensation to executive officers totaled \$58,333. This compensation was recorded as a result of the issuance of 1 million shares of restricted stock to the Company's new Chief Operating Officer, pursuant to an employment agreement entered into effective February 1, 2007. These shares vest monthly over a 36 month period and the stock price was \$0.35 per share on the date of the agreement. This stock issuance resulted in a total stock compensation expense of \$350,000, to be recognized over a 36 month period starting February 1, 2007. For the three months ended March 31, 2007, \$19,444 of this total compensation amount was recognized as stock compensation expense and the remaining amount \$330,556 was recorded as deferred stock compensation, a contra equity account on the balance sheet. Some stock volatility factors used by the Company, for five option grants in its fiscal year ended June 30, 2006 calculated the volatility factor for Black Scholes using the term of the option, which is general practice, not from the announcement date of the merger, January 5, 2006, which was later determined to be a more applicable date range due to the announcement date being the date the stock market reflected the merger in the valuation of the Company's stock. This difference in these volatility factors for these five option grants is not material to these financial statements, therefore, no current adjustment to the volatility factors was made to these financial statements for these five option grants and we have decided to continue to use these factors for future expense recognition of options under SFAS #123R.

**Thorium Power, Ltd.**  
**(A Development Stage Company)**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2007**

## c). Warrants

At March 31, 2007, there were 25,282,745 warrants outstanding.

At March 31, 2007 the range of warrant prices for shares under warrants and the weighted-average remaining contractual life are as follows:

|                                          |                               | <b>Warrants Outstanding and<br/>Exercisable</b>                            |
|------------------------------------------|-------------------------------|----------------------------------------------------------------------------|
| <b>Warrants - Exercise Price</b>         | <b>Number of<br/>Warrants</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life - Years</b> |
| \$0.30 (Assumed from Thorium Power Ltd.) | 2,104,999                     | 0.2                                                                        |
| \$0.39                                   | 2,743,662                     | .04                                                                        |
| \$0.50 (Assumed from Thorium Power Ltd.) | 2,104,166                     | .05                                                                        |
| \$0.65 (Assumed from Thorium Power Ltd.) | 18,39,918                     | 0.6                                                                        |
| Total                                    | 25,282,745                    | 0.5                                                                        |

The investors in the November 23, 2005, March 30, 2006 and May 4, 2006 private placements received detachable warrants for the purchase of 2,104,999, 2,104,166 and 18,329,918 shares of common stock, respectively, which were valued at \$127,467, \$281,117 and \$3,539,058, respectively. For purposes of estimating the intrinsic fair value of each warrant as of dates of the private placements, the Company utilized the Black Scholes option-pricing model. The Company estimated the fair value of the warrants assuming no expected dividends and the following weighted-average assumptions:

|                                 | <b>March 31, 2007</b> |
|---------------------------------|-----------------------|
| Average risk-free interest rate | 2.86% - 4.30%         |
| Average expected life           | 1 year                |
| Expected volatility             | 142% - 153%           |
| Expected dividends              | 0%                    |

## d). Common Stock and Warrants reserved for Future Issuance

Common stock and warrants reserved for future issuance consists of:

|                          | <b>Shares of<br/>Common<br/>Stock</b> | <b>Stock<br/>Purchase<br/>Warrants</b> | <b>Amount</b> |
|--------------------------|---------------------------------------|----------------------------------------|---------------|
| Stock-based Compensation | 1,000,000                             | 0                                      | \$ 350,000    |



**Thorium Power, Ltd.**  
**(A Development Stage Company)**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2007**  
Income Taxes

7.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities recognized for financial reporting and the amounts recognized for income tax purposes. The significant components of deferred tax assets (at a 40% effective tax rate) as of December 31, 2006 are as follows:

| <b>Assets</b>                  | <b>Total Amount</b> | <b>Deferred Tax<br/>Asset Amount</b> |
|--------------------------------|---------------------|--------------------------------------|
| Stock-based compensation       | 3,896,519           | 1,558,608                            |
| Approximate net operating loss | 26,097,752          | 10,439,101                           |
| Less: valuation allowance      | (29,994,271)        | (11,997,709)                         |
|                                | \$ —                | —                                    |

Management believes that it is more likely than not that the forecasted taxable income will not be sufficient to utilize the tax carryforwards of approximately \$26,097,752, before its expiration in 2012 to 2026 to fully recover the asset. As a result, the amount of the deferred tax assets considered realizable was reduced 100% by a valuation allowance. In the near term, if estimates of future taxable income are increased, such an increase will change the valuation allowance. The Company has no other deferred tax assets or liabilities.

8.

**Research Agreement**

The Company has recently reached an agreement with Federal State Unitary Enterprise “Red Star”, a Russian government owned entity, on all terms of a contract whereby Thorium Power's seed and blanket fuel designs will undergo irradiation testing with the goal of moving toward deployment within full-sized commercial reactors. The contract is subject to approval by the Russian Federal Agency for Atomic Energy (RosAtom), which the Company expects to be completed in the second quarter of 2007.

9.

**Commitments and Contingencies**

**Firm Price Commitments**

The Company entered into a firm price commitment agreement in connection with its participation in the pre-conceptual design phase for the construction of a high-temperature test and research reactor in Texas. The agreement has created a commitment by the Company for a minimum of \$1.25 million financial contribution toward the project. A minimum payment of \$50,000 on the agreement was due and paid on February 22, 2006, with 10 additional payments totaling \$1.2 million due by December 31, 2006. A total of \$550,000 has been paid as of March 31, 2007. Management has decided to prioritize research and demonstration activities on its nuclear fuel designs in Russia (see above) and currently has no intention to contribute additional funding toward the high-temperature test and research reactor project in Texas. In Management's opinion, based on the terms and conditions presented in this agreement, it has no further obligations to fund this project.

**COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

The Company has employment agreements with its executive officers, the terms of which expire at various times. Such agreements provide for minimum compensation levels, as well as incentive bonuses that are payable if specified management goals are attained. Under each of the agreements, in the event the officer's employment is terminated (other than voluntarily by the officer or by the Company for cause or upon the death of the officer), the Company, if all provisions of the employment agreements are met, is committed to pay certain benefits, including specified monthly severance.

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

## **FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The words “believe,” “expect,” “anticipate,” “project,” “target,” “optimistic,” “intend,” “assume,” and similar expressions are intended to identify forward-looking statements. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. These statements are based on the beliefs of our management as well as assumptions made by and information currently available to us and reflect our current view concerning future events. As such, they are subject to risks and uncertainties that could cause our results to differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, among many others: our significant operating losses; our limited operating history; uncertainty of capital resources; the speculative nature of our business; our ability to successfully implement new strategies; present and possible future governmental regulations; operating hazards; competition; the loss of key personnel; any of the factors in the “Risk Factors” section of the Company’s Annual Report on Form 10-K; other risks identified in this Report; and any statements of assumptions underlying any of the foregoing. You should also carefully review other reports that we file with the SEC. The Company assumes no obligation and does not intend to update these forward-looking statements, except as required by law.

We file annual and quarterly reports and other information with the SEC. You may obtain and copy any document we file with the SEC at the SEC’s public reference room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC’s public reference facilities by calling the SEC at 1-800-SEC-0330. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC at its principal office at 100 F Street, NE, Room 1580, Washington, D.C. 20549-1004. The SEC maintains an Internet website at <http://www.sec.gov> that contains reports and other information regarding issuers that file electronically with the SEC. Our SEC filings, including the exhibits thereto, are accessible through the Internet at that website.

Thorium Power, Ltd.’s reports on Forms 10-KSB, 10-QSB and 8-K, and amendments to those reports, are available for download, free of charge, as soon as reasonably practicable after these reports are filed with the SEC, at our website at [www.thoriumpower.com](http://www.thoriumpower.com). The content of our website is not a part of this Report. You may request a copy of our SEC filings, at no cost to you, by telephoning us at 703.918.4932 or writing us at: Thorium Power, Ltd., 8300 Greensboro Drive, Suite 800, McLean, Virginia 22102, attention: Secretary. We will not send exhibits to the documents, unless the exhibits are specifically requested and you pay our fee for duplication and delivery.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.**

*The following analysis discusses the financial condition and results of operations of Thorium Power, Ltd and its subsidiary, Thorium Power, Inc., at and for the three months ended on March 31, 2007 and 2006, and should be read in conjunction with our unaudited consolidated financial statements and the notes thereto.*

### **General Overview**

On October 6, 2006, we acquired Thorium Power, Inc. through a merger transaction. Thorium Power, Inc. has patented proprietary nuclear fuel designs for use in existing commercial nuclear power plants. The merger was

accounted for as a reverse merger and Thorium Power, Inc. is being treated as the accounting acquiror.

As discussed in more detail below, in connection with the merger, we changed our line of business. This new line of business, which is now our only business line, is research and development of proprietary nuclear fuel designs for use in nuclear power plants. We began to shift our focus to this business in anticipation of the merger with Thorium Power, Inc. and, upon completion of the merger, this business is conducted through both Thorium Power, Inc. and the Company. Our historical business preceding the merger was mineral exploration which has been phased out completely.

We are a development stage company. We are primarily 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.

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. We do not currently have any revenues from our activities in this area 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. Future revenues could be generated through the licensing of our technology and also by providing other services in the nuclear power industry. Accordingly, we prepare our financial statements as a development stage company in accordance with FASB Statement No. 7, "Accounting and Reporting by Development Stage Enterprises."

### ***Material Opportunities and Challenges***

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.

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 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. Management believes 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.

### ***Plan of Operation***

At March 31, 2007, our total assets were approximately \$9,413,098. Liabilities as of March 31, 2007 totaled approximately \$961,611. We had working capital surplus of approximately \$8,220,547 at March 31, 2007.

While management presently expects that our present working capital will meet our foreseeable working capital needs for the next 10 months from the date of this filing. 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, as mentioned below, is approximately \$500,000 per month (including approximately \$100,000 per month for payroll and payroll-related fringe benefits). 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 sometime in 2007 in order to insure we have the necessary working capital available to continue our operations in 2008. That financing, however, 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.

Over the next 12-15 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 reached a formal agreement 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 expect this agreement to be finalized and submitted for formal approval to RosAtom within the next several months and these research expenses to be in the range of approximately \$2 million to \$2.5 million for fiscal 2007, but it is possible that such expenses could be less or more than those amounts. We spent approximately \$35,000 for research and development in 2006 and no significant additional amounts spent in 2007, as of the date of this filing.

Over the next 3 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) Performing post-irradiation examination of seed and blanket fuel samples that have been irradiated in a research reactor 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.

Additionally, we anticipate increasing our payroll and related fringe benefits costs in our fiscal year ended December 31, 2007, as we are looking to hire a permanent Chief Financial Officer in 2007 to add to our management team.

### ***Results of Operations***

#### **Quarter Ended March 31, 2007**

We had no revenues during the three months period ended March 31, 2007.

Our total operating expenses for the quarter ended March 31, 2007 were \$2,889,979 consisting of:

- \$1,335,517 of stock based compensation;
  - \$164,364 in professional fees
- \$477,680 of payroll and severance expenses;
- \$471,762 in consulting expenses and all advisory board expenses
  - \$440,656 in other general and administrative expenses .

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Other income and expense was \$112,586 for the quarter ended March 31, 2007. This consists of interest income earned.

Our net loss was \$2,777,393 and \$331,839 for the quarters ended March 31, 2007 and 2006, respectively. Our cumulative loss from January 8, 1992 to March 2007 was \$29,955,382

### Quarter Ended March 31, 2006

We had no revenues in 2006.

Our total operating expenses for the quarter ended March 31, 2006 was \$330,972 consisting of:

- \$73,700 research and development expenses ;
- \$257,272 of general and administrative expenses

The increase in operating expenses is due to our increase in employees, our advisory boards and other professional fees, costs related to being a public company as well as increase in other general operating expenses.

### ***Liquidity and Capital Resources***

As of March 31, 2007 and December 31, 2006, we had cash and cash equivalents of \$9,026,195 and \$10,927,775, respectively. During the quarter ended March 31, 2007, we set up a separate account ("R&D Account") and designated \$5 million of our total cash to be held in this R&D Account. The following table provides detailed information about our net cash flow for all financial statements periods presented in this Report.

### **Cash Flow**

|                                                  | <b>Quarters Ended March 31,</b> |             |
|--------------------------------------------------|---------------------------------|-------------|
|                                                  | <b>2007</b>                     | <b>2006</b> |
| Net cash used in operating activities            | 1,900,153                       | 839,606     |
| Net cash used in investing activities            | 0                               | 1,357       |
| Net cash provided (used by) financing activities | (1,427)                         | 1,514,333   |
| Net cash outflow (inflow)                        | 1,901,580                       | 673,370     |

#### ***Operating Activities:***

Net cash used for operating activities was \$1,900,153 for the quarter ended March 31, 2007 which is an increase of \$1,060,547 from the \$839,606 net cash used for operating activities for the same period in 2006. This increase was mainly due to increase in operating expenses, as described above in the results of operations.

#### ***Investing Activities:***

Net cash used for investing activities in the quarter ended March 31, 2007 was \$0, which is a decrease of \$1,357 from net cash used for investing activities of \$1,357 in the same period of 2006, due to a decrease in the purchase of equipment.

*Financing Activities:*

Net cash used by financing activities in the quarter ended March 31, 2007 totaled \$1,427 as compared to \$1,514,333 provided by financing activities in the same period of 2006. The decrease of the cash provided by financing activities was mainly attributable to the decrease in proceeds received from the issuance of our common stock.

While management expects these proceeds will meet our foreseeable needs for the next 10 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 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-KSB filed with the Commission on March 20, 2007.

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 Nonemployees

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 remeasured 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 107% to 275%, a risk-free interest rate of 4.18% to 4.45%, dividend yield of 0% and an exercise term of one to five years.

**PART II  
OTHER INFORMATION**

**ITEM 1. 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 2. UNREGISTERED SALES OF EQUITY SECURITIES OR USE OF PROCEEDS**

There were no unregistered sales of equity securities in the quarter ended March 31, 2007.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

There were no defaults upon senior securities in the quarter ended March 31, 2007.

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

No matters were submitted to a vote of security holders in the quarter ended March 31, 2007.

**ITEM 5. OTHER INFORMATION**

N/A

**ITEM 6. EXHIBITS**

The following exhibits are filed with this report, except those indicated as having previously been filed with the SEC 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.

| <i><b>Exhibit<br/>Number</b></i> | <i><b>Description</b></i>                                                                                                                                                                                    |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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                             | 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                       |

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February 1, 2007).

|       |                                                                       |
|-------|-----------------------------------------------------------------------|
| 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

SIGNATURES

In accordance with section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this Report on Form 10-QSB to be signed on its behalf by the undersigned, thereto duly authorized individual.

Date: May 10, 2007

THORIUM POWER, LTD.

By: /s/ Seth Grae

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Seth Grae  
Chief Executive Officer,  
President and Director

## EXHIBIT INDEX

| <i><b>Exhibit<br/>Number</b></i> | <i><b>Description</b></i>                                                                                                                                                                                    |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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).    |
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| 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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