

Thorium Power, Ltd  
Form 10-K  
March 26, 2009

**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, 2008**

**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)

**1600 Tysons Boulevard, Suite 550  
McLean, Virginia 22102**

(Address of Principal Executive Office and Zip Code)

**(571) 730-1200**

(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, 2008, 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 \$67.9 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 23, 2009 there were 301,841,722 shares of the Registrant's common stock outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Definitive Proxy Statement for its 2009 Annual Meeting of Shareholders to be filed with the Commission within 120 days after the close of the Registrant's fiscal year are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## THORIUM POWER, LTD.

### FORM 10-K

For the Fiscal Year Ended December 31, 2008

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## **FORWARD-LOOKING STATEMENTS**

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. We use words such as believe, expect, anticipate, project, target, plan, optimistic, intend, aim, will or similar expressions which are intended to identify forward

statements. Such statements include, among others, (1) those concerning market and business segment growth, demand and acceptance of our Nuclear Energy Consulting Services and Nuclear Fuel Technology Business, (2) any projections of sales, earnings, revenue, margins or other financial items, (3) any statements of the plans, strategies and objectives of management for future operations, (4) any statements regarding future economic conditions or performance, (5) uncertainties related to conducting business in foreign countries, as well as (6) all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, as well as assumptions that if they were to ever materialize or prove incorrect, could cause the results of the Company to differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties, among others, include:

our ability to attract new customers,  
our ability to employ and retain qualified employees and consultants that have experience in the Nuclear Industry,  
competition and competitive factors in the markets in which we compete,  
general economic and business conditions in the local economies in which we regularly conduct business, which can affect demand for the Company's services,  
changes in laws, rules and regulations governing our business,  
development and utilization of our intellectual property,  
potential and contingent liabilities, and  
the risks identified in Item 1A. Risk Factors included herein.

All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The Company assumes no obligation and does not intend to update these forward-looking statements, except as required by law. When used in this report, the terms Thorium Power, Company, we, our, and us refer to Thorium Power, Ltd. and its wholly-owned subsidiaries Thorium Power, Inc. (a Delaware corporation) and Lightbridge Power International Holding, LLC (a Delaware limited liability company).

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## **PART I**

### **Item 1. Description of Business.**

#### **History and Corporate 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. In 2008 we formed Lightbridge Power International Holding, LLC (a Delaware limited liability company). On December 12, 2008, Company management was granted shareholder approval to change the company name from Thorium Power Ltd. to Lightbridge Corporation. We anticipate effecting the name change and updated corporate branding in 2009.

#### **General Overview of Our Business Segments**

We participate in the nuclear power industry in the U.S. and internationally. Our business operations can be categorized into two segments, (1) a provider of nuclear energy consulting services, and (2) 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 and strategic advisory services in the United Arab Emirates ( UAE ). 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.

## Overview of 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, or PWRs, boiling water reactors, or 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 (1) reactor design, construction, servicing, and decommissioning, (2) front-end nuclear fuel services (nuclear fuel materials procurement and processing; nuclear fuel design (a market of interest to us) and fuel fabrication), and (3) 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 (1) buried in a repository such as the facility being constructed by the US Department of Energy at the facility in Yucca Mountain, Nevada, (2) recycled so the plutonium is burned as nuclear fuel, or (3) 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.

## Our Nuclear Energy Consulting and Advisory Services Business Segment

### 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.

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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, by 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. Furthermore, 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.

On November 30, 2007, we were retained by the Executive Affairs Authority, or EAA, a government agency of Abu Dhabi, one of the member Emirates of the United Arab Emirates, or UAE, 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 UAE, by acting as strategic advisor for the entity responsible for managing nuclear energy related activities in the UAE. We completed the Roadmap project in March 2008 and then entered into a larger follow-on consulting agreement dubbed Quickstart. The terms of the projects called for an upfront payment of professional fees to the Company of \$4.3 million and \$3.8 million, for Quickstart and Roadmap respectively. We completed work on the Quickstart project in June 2008. For these agreements, certain reimbursable expenses that were repaid to us were capped at 20% of the total professional fees and were billed separately to the EAA.

On August 1, 2008, we entered into two separate consulting services agreements with two governmental entities to be formed in the UAE, and a side agreement with the EAA. The first agreement is with the Emirates Nuclear Energy Corporation, or ENEC, an Abu Dhabi entity that, upon formation, will be responsible for implementing the country's nuclear energy infrastructure. Pursuant to the services agreement we entered into with ENEC, we provide strategic advisory services regarding the development and management of ENEC (the ENEC Agreement). Under the second agreement with the Federal Authority for Nuclear Regulation, or FANR, which upon formation, will be the independent nuclear regulatory agency in the UAE, we provide strategic advisory services regarding the development and management of FANR (the FANR Agreement and collectively with the ENEC Agreement, the Agreements). According to the Agreements, we were to be paid \$8.9 million from ENEC and \$8.5 million from FANR (aggregate of \$17.4 million was to be paid for 2008 work, but was later adjusted to \$14.1 million, based upon subsequent changes after signing these agreements, to the agreed upon detailed work plans) for strategic advisory services performed from June 23, 2008 through December 31, 2008. In addition, we were compensated for certain defined reimbursable expenses which are capped at 20% of professional fees. The term of these Agreements is five years, with automatic renewal for one year periods unless otherwise terminated pursuant to the provisions of these Agreements. Based on the successful completion of our consulting work under these agreements in 2008, we continue in 2009 to perform and bill our consulting services under both of these consulting agreements. In March 2009, we signed a follow-on agreement in 2009 with ENEC specifying the detailed work plans for the rest of the 2009 year, and we anticipate doing the same for the FANR contract within a short period of time. The revenue to be earned under these agreements will depend upon the agreed upon work plans and time spent working on these projects, which can be more or less than the revenue amounts initially planned to be earned under these agreements.

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A Side Letter with the EAA provided that upon execution of these Agreements, the EAA would pay us \$10 million, which we received in September 2008. Of the \$10 million payment by the EAA, \$5 million was deemed to be made as

a partial payment from ENEC and FANR, under each of these Agreements. The remaining \$4.1 million in outstanding fees for our services performed in 2008 under these two agreements was paid to us in 2009. Future billings for future periods under both of these two Agreements will depend on detailed work plans, which will typically be discussed and agreed upon between us and our clients on a quarterly basis during project reviews.

Revenue from the Roadmap contract was recognized during our first fiscal quarter of 2008, when the work on the contract was substantially completed. We recognized revenue related to the Quickstart project ratably over the term of the agreement as this contract called for on-going consulting services from March 2008 through June 2008. Under the August 1, 2008 Agreements, revenues were initially being recognized from our fixed professional fee agreements, using the proportional performance method of revenue recognition, but after the contract was started and more detailed work plans were agreed to, revenue was recognized on a time and expense basis. Going forward, we anticipate recognizing revenue from both of these agreements on a time and expense basis, which will be based on our agreed upon hourly billing rates and time spent working on the detailed work plans in 2009.

We may enter into additional consulting contracts to provide support and assistance to other commercial and governmental entities that are looking to develop and expand their nuclear power industry capabilities and infrastructure. In future consulting engagements we expect that revenues may be derived either from fixed professional fee agreements or from fees generated through hourly rates billed on a time and expense basis. Our current strategy in the consulting services business is focused on the following:

*Primarily:* Further strengthening the relationship with our existing clients in the UAE and increasing the revenue potential by providing additional consulting and strategic advisory services; and

*Secondarily:* Expanding our client base by further penetrating our markets and attracting new clients with similar needs as our existing clients, and also enhancing and extending our services, including the creation of new service offerings.

Our most significant expense related to our consulting and strategic advisory services business segment is the cost of services before reimbursable expenses, which generally relates to costs associated with generating consulting 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.

## **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 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 Segment**



## The Nature of Our Proprietary Technology Development Activities

For most of the past decade we have been engaged in the development of proprietary nuclear fuel designs which we ultimately intend to introduce for sale into two markets: (1) nuclear fuel designs for use in commercial nuclear power plants and (2) nuclear fuel designs for reactor-grade plutonium disposition. In addition, we have a conceptual nuclear fuel design for weapons-grade plutonium disposition. These three types

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of fuel design are primarily for use in existing or future VVER-1000 light water reactors. We have also been conducting research and development related to a variant of these nuclear fuel designs for use in existing pressurized water reactors (PWR).

Our future customers may include nuclear fuel fabricators, 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, and the filing of patent applications (including 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 as well as industry relationships, to optimize our technology development plans and 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. Our advisory services include a focus on non-proliferation, safety and operational transparency of nuclear power programs.

### **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 the 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 ( VVER SBU fuel ). Since the 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. 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 2009 and 2010, 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 be carried out over approximately 3 years (three fuel cycles for a VVER-1000 reactor operating with standard uranium oxide fuel), which is one-third of the 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

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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 \$6.3 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) significantly reduced volume, weight and long-term radio-toxicity of spent fuel, and (3) 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.

### **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

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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 governments 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.

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.

### **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 US 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.

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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 provision 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.

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 that 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.

In October 2008, Nevada Sen. Harry Reid and Utah Sen. Orrin Hatch introduced a bipartisan bill that would set aside \$250 million for research and development of thorium fuels.

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## **Our 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:

## Issued 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.

## Pending Patents

PCT patent application NO. PCT/RU2007/000732 filed in Russia on December 27, 2007 Nuclear Reactor (Alternatives), Fuel Assembly of Seed-Blanket Subassemblies for Nuclear (Alternatives), and Fuel Element for Fuel Assembly .

PCT patent application NO. PCT/RU2008/000801 filed on December 25, 2008 entitled A Light Water Reactor Fuel Assembly (Alternatives), A Light Water Reactor and A Fuel Assembly Fuel Element .

Euroasian patent application NO. 200802041, Priority claimed based on PCT/RU 200732.

US provisional patent application NO. 61/116,730 filed on November 21, 2008 entitled Nuclear Reactor (Alternatives), Fuel Assembly of Seed-Blanket Subassemblies for Nuclear Reactor (Alternatives), and Fuel Element for Fuel Assembly .

US utility patent application No. 12340833 filed on December 22, 2008. Priority claimed on PCT/RU 2007/000732 and US provisional patent application No. 61/116,730.

European Patent Application No. EP08172834.7 filed on December 23, 2008 entitled A Fuel Element, A Fuel Assembly and a Method of Using a Fuel Assembly . Priority claimed on PCT/RU 2007/000732 and A US provisional patent application No. 61/116,730.

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 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

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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, 2008, we had 25 employees, 22 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.

## Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, including exhibits, and amendments to those reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Exchange Act, are available free of charge on our website at [www.thoriumpower.com](http://www.thoriumpower.com) as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Copies of these reports may also be obtained free of charge by sending written requests to Investor Relations, Thorium Power Ltd., 1600 Tysons Blvd, Suite 550 Mclean, VA 22102 USA. The information posted on our web site is not incorporated into this Annual Report.

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## Item 1A. Risk Factors.

### Business Risks

#### **Our results of operations could be adversely affected by disruptions in the marketplace caused by economic and political conditions.**

Global economic and political conditions affect our clients' businesses and the markets they serve. A severe and/or prolonged economic downturn or a negative or uncertain political climate could adversely affect our clients' financial condition and the levels of business activity engaged in by our clients and the industries we serve. Clients could determine that discretionary projects are no longer viable or that new projects are not advisable. This may reduce demand for our services, depress pricing for our services or render certain services obsolete, all of which could have a material adverse effect on our results of operations. Changes in global economic conditions or the regulatory or legislative landscape could also shift demand to services for which we do not have competitive advantages, and this could negatively affect the amount of business that we are able to obtain. Although we have implemented cost management measures, if we are unable to appropriately manage costs or if we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for and respond to those changes, and our business could be negatively affected. In addition, any significant volatility or sustained decline in the market

price of our common stock could impair our ability to use equity-based compensation to attract, retain and motivate key employees.

**Recent turmoil in the credit markets and the financial services industry may impact our ability to collect receivables on a timely basis and may negatively impact our cash flow.**

Recently, the credit markets and the financial services industry have been experiencing a period of unprecedented turmoil and upheaval. While the ultimate outcome of these events cannot be predicted, they may have a material adverse effect on us. These events could also adversely impact the availability of financing to our clients and therefore adversely impact our ability to collect amounts due from such clients or cause them to terminate their contracts with us completely.

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

Before 2008 we were 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,

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our clients' perceptions of our ability to add value through our services,  
our competitors' pricing of services,

Our results of operations could be adversely affected by disruptions in the marketplace caused by economic conditions and political events.



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.

**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 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:

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*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.

*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 that 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 fuel designs have never been tested in an existing commercial reactor and actual fuel performance, as well as t

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**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.

**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 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 the Russian Research Centre Kurchatov Institute, OKBM, MSZ Electrostal and others, that are independent contractors that are owned or are closely affiliated with the government of the Russian Federation. We do not currently have all of the necessary licensing or other rights to acquire or utilize certain designs, methodologies or processes required for the fabrication of 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 Russian entities that previously developed and own such technologies. If we are unable to obtain such a license or other right on terms that the 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 the Company.**

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 a key man insurance policy 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 the 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.-Russian 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 the plutonium disposition program and nuclear power technology development programs. If this should happen, our research and development program in Russia could

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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 impacts on our project. Finally, in 2007, the Russian Agency for 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 (AEP). Originally, the restructuring effort was expected to be completed by the end of 2007, but the schedule has slipped and the restructuring is still ongoing. 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, which 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 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, and security, as well as the environmental and radiological aspects of those facilities. These nuclear regulatory bodies may modify, suspend or revoke operating licenses and impose civil

The price of fossil fuels or uranium may fall, which would reduce the interest in thorium fuel by reducing the economic

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 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

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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. 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, 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.

## **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 US export controls administered by the US Department of Energy, and/or the US Department of Commerce. US governmental authorizations may be required before we can export our services or technology. These controls are subject to change and a number of US 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.

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## **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 our 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 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 affect 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 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.

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### **Item 1B. Unresolved Staff Comments.**

Not applicable

### **Item 2. Description of Property.**

We are obligated to pay approximately \$40,162 per month for office rent and approximately another \$1,783 per month for other fees for the rented office space located at 1600 Tysons Boulevard, Suite 550, McLean, Virginia 22102. The space is used by our executives and employees for administrative purposes. The term of the lease for our offices

There may be volatility in our stock price, which could negatively affect investments, and stockholders may not be able

expires on December 31, 2013 and is renewable for additional one-year terms.

We are obligated to pay approximately \$9,322 per month for office rent and approximately another \$1,500 per month for other fees for the rented office space located at Zemlyanoi Val, 9, Moscow, Russia, 105064. The space is used by our Moscow staff for administrative purposes. The term of the lease for our offices expires on April 30, 2010 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.

On December 12, 2008, we held an annual meeting at which a majority of the Company's shareholders (i) elected five (5) directors to our Board of Directors, (ii) ratified the appointment of Child, Van Wagoner & Bradshaw PLLC as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008, (iii) authorized the Board of Directors to amend the Company's Articles of Incorporation to effect a reverse stock split of our common stock, on or before December 12, 2009, of up to 1-for-50, without further approval from our stockholders, upon a determination by our Board of Directors that such a reverse stock split is in the best interest of the Company and our stockholders, and (iv) approving an amendment to the Company's Articles of Incorporation changing the name of the Company to Lightbridge Corporation.

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The following table sets forth the matters voted upon at the annual meeting and the results of the voting on each matter voted upon:

Matter Voted Upon	Votes For	Withheld	Votes Against	Abstentions	Broker Non-Votes
Election of Seth Grae to the Company's Board of Directors	233,308,992	3,280,464			
Election of Thomas Graham Jr. to the Company's Board of Directors	233,814,260	2,775,196			
Election of Victor Alessi to the Company's Board of Directors	233,884,968	2,704,488			
Election of Jack Ladd to the Company's Board of Directors	233,384,450	3,205,006			
Election of Daniel Magraw to the Company's Board of Directors	233,383,250	3,206,206			
Approval of Child, Van Wagoner & Bradshaw PLLC as the Company's independent accountants for fiscal year	233,863,653		1,787,139	938,664	0



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Approval for Board of Directors to amend the Company's Articles of Incorporation to affect a stock split	214,579,700	21,354,006	655,750	0
Approval of Amendment to the Company's Articles of Incorporation changing the name of the Company to Lightbridge Corporation	195,899,407	39,103,960	1,586,089	0

Each of the above matters was approved by the stockholders at the annual meeting.

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## PART II

### Item 5. Market for Common Equity, Related Stockholder Matters and Small Business 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
2008	December 31	\$ 0.24	\$ 0.14
	September 30	\$ 0.28	\$ 0.15
	June 30	\$ 0.31	\$ 0.22
	March 31	\$ 0.36	\$ 0.22
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

#### Holders

As of March 23, 2009, our common stock was held by 223 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 as 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.

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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, 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 as well as 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 Trust Company, 350 Indiana Street, Suite 800, Golden, Colorado, 80401. Its telephone number is 800.962.4284 and facsimile is 303.262.0604.

## Recent Sales of Unregistered Securities

Except for sales previously disclosed in quarterly reports on Form 10-Q 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.

## Securities Authorized for Issuance Under Equity Compensation Plans

The information under the heading "Equity Compensation Plan Information" in our definitive proxy statement for the annual meeting of shareholders to be filed with the SEC is incorporated herein by reference.

### Item 6. Selected Financial Information.

Not applicable

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

#### Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand Thorium Power Ltd., our operations and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes thereto contained in Item 8. Financial Statements and Supplementary Data of this report.

This overview summarizes the MD&A, which includes the following sections:

*Our Business* – a general overview of our two business segments, the material opportunities and challenges of our business;

*Critical Accounting Policies and Estimates* – a discussion of accounting policies that require critical judgments and estimates;

*Operations Review* – an analysis of our Company's consolidated results of operations for the two years presented in our consolidated financial statements. Except to the extent that differences among our operating segments are material to an understanding of our business as a whole, we present the discussion in the MD&A on a consolidated basis; and

*Liquidity, Capital Resources and Financial Position* – an analysis of cash flows; an overview of financial position. 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.

#### Our Business

##### General Overview

We are a provider of nuclear energy consulting and strategic advisory services and a developer of proprietary nuclear fuel designs, each of which will be described in the following sections.

## **Consulting and Strategic Advisory Services Business Segment**

Substantially all of our revenues are derived from our business segment which provides nuclear consulting services to entities within the UAE, as described above. Revenue from the Roadmap contract was recognized during our first fiscal quarter of 2008, when the work on the contract was substantially completed. We recognized revenue related to the Quickstart project ratably over the term of the agreement as this contract called for on-going consulting services from March 2008 through June 2008. Under the August 1, 2008 Agreements, revenues are being derived from fixed professional fee agreements, which were ultimately paid out in 2008 on a time and expense basis. Going forward, we may enter into additional consulting contracts to provide support and assistance to other commercial and governmental entities that are looking to develop and expand their nuclear power industry capabilities and infrastructure. In future consulting engagements we expect that revenues may be derived either 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 and strategic advisory services business segment is the cost of services before reimbursable expenses, which generally relates to costs associated with generating consulting 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.

## **Technology Business Segment**

Our operations related to development and demonstration of our nuclear fuel designs primarily involve testing of the fuel designs, developing strategic relationships within and outside of the nuclear power industry,

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securing political and financial support from the U.S. and Russian governments, and the filing of patent applications including 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 as well as industry relationships, to optimize our technology development plans and 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. Our advisory services include a focus on non-proliferation, safety and operational transparency of nuclear power programs.

## **Material Opportunities and Challenges**

## **Consulting and Strategic Advisory Services**

Our emergence in the field of nuclear energy consulting is in direct response to the need for independent assessments, and highly qualified and integrated strategic advisory services for 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 strategic 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, safe, and transparent nuclear programs.

Our major challenge in pursuing our business is that the decision making process for nuclear power programs typically involves careful consideration by many parties, and therefore requires significant time. Also, many of the potential clients that could benefit from our services are in regions of the world where tensions surrounding nuclear energy are high, or in countries where public opinion plays an important role. Domestic and 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 two different types, or variants, of thorium-based 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. We also have developed a conceptual design for a fuel 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.

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 fifteen 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 International Atomic Energy Agency, or the IAEA, and an April 2005 report by Westinghouse Electric Company LLC, or 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-based fuel designs.

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

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.

See also Item 1A. Risk Factors in Part I of this report for additional information about risks and uncertainties facing our Company.

## **Critical Accounting Policies**

### **Critical Accounting Policies and Estimates**

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.

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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.

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

We adopted SFAS 123(R), as of January 1, 2006. SFAS 123(R) replaced the existing requirements under SFAS No. 123, Accounting for Stock Based Compensation, and Accounting Principles Board Opinion No. 25, Accounting for Stock-based Compensation to Employees, or APB 25. According to SFAS 123(R), all forms of share-based payments to employees, including employee stock options and employee stock purchase plans, are treated the same as any other form of compensation by recognizing the related cost in the statement of income.

Under SFAS 123(R), stock-based compensation expense is measured at the grant date based on the fair value of the award, and the expense is recognized ratably over the award's vesting period. For all grants made, we recognize compensation cost under the straight-line method.

We measure the fair value of stock options on the date of grant using a Black-Scholes option-pricing model which requires the use of several estimates, including:

- the volatility of our stock price;
- the expected life of the option;
- risk free interest rates; and
- expected dividend yield.

Prior to the completion of our merger in October 2006, we had limited historical information on the price of our stock as well as employees' stock option exercise behavior for stock options issued prior to the merger. As a result, we could not rely on historical experience alone to develop assumptions for stock price volatility and the expected life of options. As such, our stock price volatility was estimated with reference to our historical stock price for the time period before the merger, from the date the announcement of the merger was made. We utilized the closing prices of our publicly-traded stock from the announcement date in January 2006 to determine our volatility and we have continued to use our historical stock price closing prices to determine our volatility in 2008.

The expected life of options is based on internal studies of historical experience and projected exercise behavior. We estimate expected forfeitures of stock-based awards at the grant date and recognize compensation cost only for those awards expected to vest. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Estimated forfeitures are reassessed in subsequent periods and may change based on new facts and circumstances. We utilize a risk-free interest rate, which is based on the yield of U.S. treasury securities with a maturity equal to the expected life of the options. We have not and do not expect to pay dividends on our common shares.

The options were valued using the Black-Scholes option pricing model. The assumptions used were as follows: volatility of 96% to 284%, a risk-free interest rate of 2.6% to 5.24%, dividend yield of 0% and an exercise term of two to ten years.

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**Income Taxes**

We account for income taxes using the liability method in accordance with SFAS No.109 Accounting for Income Taxes, which requires the recognition of deferred tax assets or liabilities for the tax-effected temporary differences between the financial reporting and tax bases of our assets and liabilities and for net operating loss and tax credit carry forwards. The tax expense or benefit for unusual items, prior year tax exposure items or certain adjustments to valuation allowances are treated as discrete items in the interim period in which the events occur.

On January 1, 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, or FIN 48. FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. As a result of the implementation of FIN 48, we did not recognize any current tax liability for unrecognized tax benefits. We do not believe that there are any unrecognized tax positions that would have a material effect on the net operating losses disclosed. We have estimated the amount of our net operating loss carry-forwards and we currently have engaged tax professionals to evaluate the amount of net operating loss carry-forward available to us to offset future taxable income, under Internal Revenue Code Section 382.

**Revenue Recognition from Consulting Contracts**

We believe one of our critical accounting policies is revenue recognition from our consulting contracts. 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 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.

The two consulting agreements that we entered into in August 2008 were fixed fee service contracts but were subsequently changed to time and expense contracts. We recognized revenue associated with these contracts in accordance with the time and expense billed to our customer, which is subject to their review and approval. When a loss is anticipated on a contract, the full amount of the anticipated loss is recognized immediately. Our management uses its judgment concerning the chargeable number of hours to bill under each contract considering a number of factors, including the experience of the personnel that are performing the services, the value of the services provided and the overall complexity of the project. Should changes in management's estimates be required, due to business conditions that cause the actual financial results to differ significantly from management's present estimates, revenue recognized in future periods could be adversely affected.

We recognize revenue in accordance with SEC Staff Accounting Bulletin or SAB, No. 104, Revenue Recognition. We recognize revenue when all of the following conditions are met:

- (1) There is persuasive evidence of an arrangement;



- (2) The service has been provided to the customer;
- (3) The collection of the fees is reasonably assured; and
- (4) The amount of fees to be paid by the customer is fixed or determinable.

In situations where contracts include client acceptance provisions, we do not recognize revenue until such time as the client has confirmed its acceptance.

## Intangibles

As presented on the accompanying balance sheet, we had patents with a net book value of \$217,875 as of December 31, 2008. There are many assumptions and estimates that may directly impact the results of impairment testing, including an estimate of future expected revenues, earnings and cash flows, and discount rates applied to such expected cash flows in order to estimate fair value. We have the ability to influence the

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outcome and ultimate results based on the assumptions and estimates we choose for testing. To mitigate undue influence, we set criteria that are reviewed and approved by various levels of management. The determination of whether or not intangible assets have become impaired involves a significant level of judgment in the assumptions. Changes in our strategy or market conditions could significantly impact these judgments and require adjustments to recorded amounts of intangible assets.

## Contingencies

Management assesses the probability of loss for certain contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate. Management believes that any liability to the Company that may arise as a result of having to pay out additional expenses that may have a material adverse effect on the financial condition of the Company taken as a whole should be disclosed. Refer to Note 12 of Notes to Consolidated Financial Statements.

## Recent Accounting Standards and Pronouncements

Refer to Note 1 of Notes to Consolidated Financial Statements for a discussion of recent accounting standards and pronouncements.

## Business Segments and Periods Presented

Prior to January 1, 2008, we operated as a single reportable segment. As a result of the formation of our consulting and strategic advisory services business segment in December 2007, and based on a review of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, we have determined that we now operate in two business segments; the consulting and strategic advisory services business and the technology business. We present our segment information along the same lines that our chief executive officer, chief operating officer and chief financial officer use to review our operating results in assessing performance and allocating resources.

We have provided a discussion of our results of operations on a consolidated basis and have also provided certain detailed segment information for each of our business segments below for the year ended December 31, 2008, in order to provide a meaningful discussion of our business segments.

December 31, 2008	Consulting	Technology	Corporate and Eliminations	Total 12 Months
Revenue	22,219,905			22,219,905
Segment Profit (Loss) Before Tax	11,131,182	(2,505,990)	(11,474,568)	(2,849,376)
Total Assets	1,278,020	217,875	10,950,882	12,446,777
Property Additions			102,113	102,113
Interest Expense				
Depreciation			24,668	24,668

## Factors Affecting the Comparability of Business Segment Results and Results of Operations

As discussed above, the formation of our consulting and strategic advisory services business segment in December 2007 impacts the comparability of our results of our business segments operations for the year ended December 31, 2008 versus the year ended December 31, 2007, as we were not performing consulting services until the month of December 2007, therefore we are not showing comparative 2007 figures in the business segment information above.

We also allocated, starting in 2008, certain general and administrative expenses to our cost of consulting services provided in our statement of operations, which affects the comparability of certain expenses captioned in general and administrative expenses for the year ended December 31, 2008 versus the year ended December 31, 2007.

## Consulting and Strategic Advisory Services Business

At the present time, all of our revenue for the year ended December 31, 2008 is derived from our consulting and strategic advisory services business segment, by offering services to foreign governments planning to create or expand electricity generation capabilities using nuclear power plants benefiting from thorium-based or other nuclear fuels.

The fee type and structure that we offer for each client engagement is dependent

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on a number of variables, including the complexity, the level of the opportunity for us to improve the client's electricity generation capabilities using nuclear power plants, and other factors. All of the Company's revenues for the year ended December 31, 2008, have been derived from the completion of the Roadmap and Quickstart projects and our continuing work under the August 1 Agreements, with the EAA, and upon formation, ENEC and FANR. The cost of consulting services provided is \$11,088,723 for the year ended December 31, 2008, which consists primarily of direct labor consulting expenses and other labor support costs incurred. Some indirect corporate overhead expenses incurred were not allocated to the consulting and strategic advisory services business segment, and are reported above in the business segment information chart as corporate overhead costs in the above segment reporting financial table.

## Technology Business

Over the next 12 to 18 months we expect to incur approximately up to \$5 - \$6 million in research and development expenses related to the development of our proprietary nuclear fuel designs. 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 have spent approximately \$1.6 million for research and development in 2008, and a cumulative amount from the date of our inception (January 8, 1992, date of inception of Thorium Power Inc.) to December 31, 2008 of \$6.3 million. In

addition we incurred approximately \$0.9 million in salary, benefits and other general and administrative support costs for the year ended December 31, 2008. We have established an office in Moscow and leased office space to support our research and development activities in Russia, as of May 1, 2008.

Over the next several years, we expect that our research and development activities will increase and 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 fuel samples that have been irradiated in ampoules in the IR-8 research reactor and conducting loop irradiation testing, 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.

## Financial Status

At December 31, 2008, our total assets were approximately \$12.4 million and total liabilities as of December 31, 2008, were approximately \$5.1 million. For the year ended December 31, 2008, the results of operations from our consulting business segment have increased our working capital surplus by \$3.5 million, from \$3.4 million at December 31, 2007 to \$6.9 million as of December 31, 2008. Accounts payable and accrued liabilities balance as of December 31, 2008 equaled \$5.1million, an increase of approximately \$3 million since December 31, 2007. These liabilities have increased primarily due to the growth of our consulting and strategic advisory services business, and the indirect support costs associated with this business segment.

Management expects that our current cash position, as well as the expected revenue and profits that are expected to be earned from our follow-on agreements from the two consulting agreements we entered into in August 2008, will meet our foreseeable working capital needs for our current operations until sometime in 2010. In support of our longer-term business plan for our technology business segment, we will need to raise

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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. We will also need to raise capital to support our technology business if the consulting and strategic advisory services business becomes non-sustaining. Our current average monthly projected working capital requirements for the company, excluding the \$5 \$6 million of research and development expenses we expect to incur in Russia over the next 12 18 months is approximately \$1,200,000 per month. This financing will need to take place in 2009, to ensure that we have the necessary working capital to continue our planned business operations through 2009 and beyond. 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.

## Consolidated Results of Operations

The following table summarizes certain aspects of the Company's consolidated results of operations for the year ended December 31, 2008 compared to the year ended December 31, 2007.

### Comparison of the Year Ended December 31, 2008 to the Year Ended December 31, 2007

	Year Ended December 31, 2008	2007	(Decrease) Change \$	(Decrease) Change %
Consulting Revenues	\$ 22,219,905		\$ 22,219,905	
Cost of services provided				
Consulting expenses	\$ 11,088,723		\$ 11,088,723	
% of total revenues	50	%		
Gross profit	\$ 11,131,182	\$	\$ 11,131,182	
% of total revenues	50	%		
Operating Expenses				
General and administrative	\$ 6,958,165	\$ 6,259,317	\$ 698,848	11 %
% of total revenues	31	% N/A		
Research and development expenses	\$ 1,565,594	\$ 756,755	\$ 808,839	107 %
% of total revenues	7	% N/A		
Stock-based compensation	\$ 5,649,835	\$ 4,745,098	\$ 904,737	19 %
% of total revenues	25	% N/A		
Total Operating Loss	\$ (3,042,412 )	\$ (11,761,170 )	\$ (8,718,758 )	-74 %
% of total revenues	14	% N/A		
Other Income and (Expenses)				
Interest income/expense, other	\$ 193,036	\$ 308,587	\$ (115,551 )	-38 %
% of total revenues	1	% N/A		
Net loss before income taxes	\$ (2,849,376 )	\$ (11,452,583 )	\$ (8,603,207 )	-75 %
% of total revenues	-13	% N/A		

### Revenues

The \$22 million of revenue for the year ended December 31, 2008, is generated from our consulting and strategic advisory services business segment. We earned revenue during 2008 from the Roadmap and Quickstart projects as well as the August 1, 2008 consulting contracts with ENEC and FANR, mentioned above. Pursuant to the Agreements, we were to be paid for 2008 work \$8.9 million from ENEC and \$8.5 million from FANR (aggregate of \$17.4 million), which was later adjusted to \$14.1 million, based upon subsequent changes to the agreed upon detailed work plans and the work performed by us under these two agreements.

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Following the successful work done by us in 2008 for the August 1, 2008 agreements for the ENEC and FANR projects, we continue to provide consulting services under both agreements starting in January 2009. We entered into a next phase follow-on agreement in March 2009 to continue services under the ENEC agreement in 2009. We

anticipate that revenue earned in 2009 from this follow-on agreement will be up to \$7 million. We also anticipate entering into a follow-on consulting agreement in the near term for the FANR work as well, in an amount up to \$10 million of revenue to be earned in 2009. The revenue to be earned under these agreements will depend upon the agreed upon work plans and time spent working on these projects, which can be more or less than the revenue amounts initially planned to be earned under these agreements. We also anticipate entering into other consulting and technology agreements that may generate revenue for us as well in 2009.

### **Cost of Services Provided**

The cost of services for the year ended December 31, 2008 is primarily from expenses related to the consulting, professional, administrative and other support costs that were incurred to perform work on our consulting projects in Abu Dhabi.

### **General and Administrative Expenses**

There was an 11 percent increase in the general and administrative expenses for the year ended December 31, 2008. The majority of this percentage increase is due to an increase in costs to support our consulting and strategic advisory services business segment. Included in these indirect support costs are (1) additional employees and consultants hired to support our consultants working on our consulting projects, (2) establishment of a human resources department to hire new consultants with the proper nuclear expertise to work on our consulting projects, (3) a new ERP accounting system to support the activities of our consulting projects and to strengthen our internal controls, and (4) larger office space to accommodate the additional people working for our company. We also incurred costs to establish our new corporate branding for Lightbridge Corporation (our new corporate name that will be used sometime in 2009) and to engage a consulting firm to assist us in establishing foreign branch offices in Abu Dhabi and Russia in 2009. We expect our general and administrative expenses to increase in future periods due to the expansion of our consulting and strategic advisory services business segment and the hiring of new officers, employees and consultants to help further develop and support our (1) consulting and strategic advisory services and (2) technology business segments.

### **Research and Development Costs**

The increase in research and development costs for the year ended December 31, 2008 is due to the increase in the scope of work for our research and development activities in Russia. We expect that our research and development expenses will increase in the future periods. Over the next 12 to 18 months we expect to incur approximately up to \$5 \$6 million in research and development expenses related to the development of our proprietary nuclear fuel designs.

### **Stock-Based Compensation**

The increase in stock based compensation for the year ended December 31, 2008, is due to the long-term incentive stock options and stock that were granted under our stock plan to our executives, directors, advisors and employees at the end of 2007, which are now being expensed as these grants vested in 2008 and will continue to vest in future years. Stock based incentives were also granted to attract new employees in 2008, due to our expansion to meet the demands of contracts with our current customer, and anticipated future business with new customers.

### **Other Income and Expense**

The decrease in other income and expense for the year ended December 31, 2008 is due to the decrease in interest income earned on our idle cash.

## Liquidity and Capital Resources

As of December 31, 2009, we had total cash and cash equivalents of \$5,580,244. The following table provides detailed information about our net cash flow for all financial statements periods presented in this Report.

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#### Cash Flow

	December 31,	
	2008	2007
Net cash provided by (used in) operating activities	\$ (3,614,876 )	\$ (997,377 )
Net cash provided by (used in) investing activities	\$ (102,113 )	\$ (17,968 )
Net cash provided by (used in) financing activities	\$ (610,458 )	\$ (4,739 )
Net cash inflow (outflow)		

#### Operating Activities

Net cash used in operating activities increased \$2,617,499, or by 262 percent, in 2008 compared to 2007. This increase in funds used in our operating activities was primarily due to an increase in our accounts receivable from our consulting projects of \$5,357,804 and payments for consulting services provided in 2008, as well as increased general and administrative expenses. This increase is offset by (1) the cash received from the Quickstart consulting agreement of \$4,285,000, received in April 2008, and (2) the \$10,000,000 advance payment received in September 2008 under the August 1 Agreements. The remaining payment for fees earned under the August 1 Agreements was received in January 2009. The cash received of \$3,793,125 for fees earned from our first consulting agreement, the Roadmap consulting agreement that was completed in March 2008, was received in December 2007 as a full prepayment prior to the start of the Roadmap consulting contract, and this amount (recorded as deferred revenue at December 31, 2007) was recorded as cash received in our statement of cash flows for the year ended December 31, 2007.

#### Investing Activities

Net cash used in investing activities increased by \$84,145 in 2008, as compared to 2007. This increase is due to office equipment purchased for our new office space and additional employees.

#### Financing Activities

Net cash used in financing activities in the year ended December 31, 2008 increased by \$605,719, as compared to 2007. This increase is due to cash deposited with Capital One for its secured credit card program, which required us to place a \$650,000 deposit into their account as collateral against future credit card charges. This increase in the cash used in financing activities was offset by money received from the exercise of stock options in the amount of \$49,975.

#### 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**

Our business, revenues and operating results have not been affected in any material way by inflation.

## **Item 7A. Quantitative and Qualitative Disclosure About Market Risk.**

Not applicable.

## **Item 8. Financial.**

The full text of our audited consolidated financial statements as of December 31, 2008 and 2007 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.

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

### **(a) 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 Chief Financial Officer. Based upon that evaluation, management concluded that 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 period covered by this report that have materially affected or are 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.

## **(b) Internal Controls Over Financial Reporting**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Exchange Act defines internal control over financial reporting as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on our assessment, we determined that, as of December 31, 2008, the Company's internal control over financial reporting was effective based on those criteria.

## **(c) Changes in Internal Control Over Financial Reporting**

During the fiscal year ended December 31, 2008, there were no changes in our internal control over financial reporting identified in connection with the evaluation performed 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.



## **Item 9B. Other Information.**

None.

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## **PART III**

### **Item 10. Directors and Executive Officers of the Registrant.**

The information required by Item 10 of Part III is included in our Proxy Statement relating to the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

### **Item 11. Executive Compensation.**

The information required by Item 11 of Part III is included in our Proxy Statement relating to the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholders.**

The information required by Item 12 of Part III is included in our Proxy Statement relating to the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information required by Item 13 of Part III is included in our Proxy Statement relating to the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

### **Item 14. Principal Accountant Fees and Services.**

Information required by Item 14 of Part III is included in our Proxy Statement relating to the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

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## **PART IV**

## Item 15. Exhibits and Financial Statement Schedules.

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	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).
10.2	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).
10.3	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).
10.4	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).
10.5	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).
10.6	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).
10.7	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).
10.8	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).

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Exhibit Number	Description
10.9	Agreement for Ampoule Irradiation Testing in 2006 – 2007, dated December 28, 2007, between Thorium Power, Inc. and Russian Research Centre Kurchatov Institute.
14.1	Code of Ethics (incorporated by reference from the Company’s Annual Report on Form 10-KSB filed on November 25, 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, 2008 and 2007**

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**THORIUM POWER LTD.****CONSOLIDATED BALANCE SHEETS**

	December 31	
	2008	2007
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$5,580,244	\$9,907,691
Restricted cash	650,000	0
Accounts receivable - project revenue and reimbursable project costs	5,357,804	0
Prepaid expenses & other current assets	394,315	204,035
Deferred project costs	0	371,631
Total Current Assets	11,982,363	10,483,357
Property Plant and Equipment - net	108,121	30,676
Other Assets		
Patent costs - net	217,875	217,875
Security deposits	138,418	2,049
Total Other Assets	356,293	219,924
Total Assets	\$12,446,777	\$10,733,957
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$5,138,979	\$2,122,649
Current portion long term debt	0	4,651
Customer deposit	0	1,206,875
Deferred revenue	0	3,793,125
Total Current Liabilities	5,138,979	7,127,300
Notes Payable - long term	0	5,782
Total Liabilities	5,138,979	7,133,082
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$0.001 par value, 50,000,000 authorized shares, no shares issued and outstanding		
Common stock, \$0.001 par value, 500,000,000 authorized, 301,493,084 shares issued and outstanding at December 31, 2008 and 299,014,182 shares issued and outstanding at December 31, 2007	301,493	299,014
Additional paid in capital - stock and stock equivalents	48,607,451	41,791,735
Deficit	(41,489,974)	(38,630,572)
Common stock reserved for issuance, 484,055 shares and 2,000,000 shares at December 31, 2008 and 2007, respectively	114,787	590,000
Accumulated other comprehensive income	0	30,143
Deferred stock compensation	(225,959)	(479,445)
Total Stockholders' Equity	7,307,798	3,600,875
Total Liabilities and Stockholders' Equity	\$12,446,777	\$10,733,957

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

TABLE OF CONTENTS**THORIUM POWER LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE LOSS**

	For the Years Ended December 31,	
	2008	2007
Revenue:		
Consulting revenue	\$22,219,905	\$0
Total Revenue	22,219,905	0
Cost of Consulting Services Provided	11,088,723	0
Gross Margin	11,131,182	0
Operating Expenses		
General and administrative	6,958,165	6,259,317
Research and development expenses	1,565,594	756,755
Stock-based compensation	5,649,835	4,745,098
Total Operating Expenses	14,173,594	11,761,170
Operating loss	(3,042,412 )	(11,761,170 )
Other Income and (Expenses)		
Interest income	162,893	367,187
Other income and expenses	30,143	(58,600 )
Total Other Income and Expenses	193,036	308,587
Net loss before income taxes	(2,849,376 )	(11,452,583 )
Income taxes	10,026	0
Net loss	(2,859,402 )	(11,452,583 )
Other Comprehensive Income (Loss)		
Unrealized gain on marketable securities	0	11,282
Total Comprehensive Loss	\$(2,859,402 )	\$(11,441,301 )
Net Loss Per Common Share, Basic and diluted	\$(0.01 )	\$(0.04 )
Weighted Average Number of shares outstanding for the period used to compute per share data	300,070,925	296,666,502

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

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**THORIUM POWER LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,	
	2008	2007
Operating Activities:		
Net Loss	\$(2,859,402)	\$(11,452,583)
Adjustments to reconcile net loss from operations to net cash used in operating activities:		
Stock based compensation	6,546,493	4,978,981
Depreciation and amortization	24,668	8,582
Realized gain on sale of securities	(30,143 )	0
Settlement Expense	0	58,601
Changes in non-cash operating working capital items:		
Accounts receivable fees and reimburseable project costs	(5,357,804)	0
Prepaid expenses and other current assets	(190,280 )	321,966
Security deposits	(136,369 )	0
Accounts payable, accrued liabilities and other current liabilities	1,809,455	1,293,951
Deferred revenue	(3,793,125)	3,793,125
Deferred project costs net	371,631	0
Net Cash Used In Operating Activities	(3,614,876)	(997,377 )
Investing Activities:		
Purchase of office equipment	(102,113 )	(17,968 )
Net Cash Used In Investing Activities	(102,113 )	(17,968 )
Financing Activities:		
Proceeds from issue of common shares	49,975	0
Payments on notes payable and other	(10,433 )	(4,739 )
Restricted cash	(650,000 )	0
Net Cash Used In Financing Activities	(610,458 )	(4,739 )
Net Decrease In Cash and Cash Equivalents	(4,327,447)	(1,020,084 )
Cash and Cash Equivalents, Beginning of Year	9,907,691	10,927,775
Cash and Cash Equivalents, End of Year	\$5,580,244	\$9,907,691
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year:		
Interest paid	\$0	\$876
Income taxes paid	\$10,026	\$0
Non-cash transactions		
Conversion of liabilities to equity	\$0	\$278,441

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

# THORIUM POWER, LTD.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS DEFICIENCY

**From January 8, 1992 (Inception) to December 31, 2008**

	Common Stock		Additional	Deficit	Stock	Accumulated	Deferred	Treasury Stock	
	Shares	Amount	Paid-in Capital		Committed Future Issuance	Comprehensive Income	Stock Compensation	Shares	Amount
per 31,	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 ies	714,120	714	277,727						
Shares are re d	2,350,000	2,350	866,150		(1,200,000)				
ense riod			3,991,317	(11,452,583)					
on ies						11,282			
ferred n costs							395,755		
warrant al paid			1,132,444						
of stock nts	888,534	888	(888)						
sure	(850,000)	(850)	(255,000)					850,000	255,850
merger ensation	128,139	128	37,032						
s and	1,022,927	1,023	357,002						
o	36,659,837	36,660	12,004,713						
Shares are					590,000		(590,000)		
per 31,	299,014,182	\$299,014	\$41,791,735	\$(38,630,572)	\$590,000	\$30,143	\$(479,445)	\$0	0

						(30,143)			
Options	320,350	320	49,655						
Expense			6,138,220						
Consentation	158,552	159	39,841		114,787		(114,787)		
Deferred							368,273		
in costs									
	2,000,000	2,000	588,000		(590,000 )				
				(2,859,402 )					
ar									
er 31,	301,493,084	301,493	48,607,451	(41,489,974)	114,787	0	(225,959)	0	0

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

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Business and Summary of Significant Accounting Policies

##### Description of Business

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. On February 14, 2006, Novastar Resources Ltd. ( Novastar ), now called Thorium Power Ltd., entered into an Agreement and merged on October 6, 2006 with Thorium Power, Inc. (Collectively after the merger, all entities are referred to as the Company or Thorium ). Thorium is engaged in two business segments.

The first business segment is the development, promotion and marketing of its patented nuclear fuel designs: (1) thorium/uranium nuclear fuel and (2) thorium/reactor-grade plutonium disposing fuel. The Company also has a conceptual design of a thorium/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. Operations to date in this business segment have been devoted primarily to continued development of our fuel designs, filing for certain patents related to our technology, developing strategic relationships within the nuclear power industry, and securing political as well as some financial support from the United States and Russian governments.

Our business model expanded in 2007 and our second business segment is providing consulting and strategic advisory services to companies and governments planning to create or expand electricity generation capabilities using nuclear power plants. We have to date secured four contracts with successively larger values for consulting and strategic advisory services in the United Arab Emirates ( UAE ). We started working on our first consulting project with the Executive Affairs Authority ( EAA ) of Abu Dhabi, one of the member Emirates of the UAE in December 2007 and completed this first consulting project in March 2008. We secured our second consulting project with the EAA in



March 2008 and completed our second project in June 2008. On August 1, 2008, we signed separate consulting services agreements with two government entities to be formed by Abu Dhabi. Under these two new agreements, we are to provide consulting and strategic advisory services over a contract term of five years starting from June 23, 2008, with automatic renewals of these contracts for one year periods.

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 the final design of our fuel technology for VVER-1000 reactors and demonstration of our fuel in a VVER-1000 operating reactor to commence in the next three to five 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.

## **Basis of Presentation and Consolidation**

### **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 Lightbridge Power International Holding, LLC (a Delaware limited liability company).

All significant intercompany transactions and balances have been eliminated in consolidation. We have formed a branch office in England in 2008 called Lightbridge Advisors Limited, which is wholly-owned by our subsidiary Lightbridge Power International Holding, LLC and we anticipate forming several more foreign branch offices in other countries during 2009. All branch offices will be consolidated in our consolidated financial statements.

Based on the revenue we earned from our consulting contracts that we entered into in 2007 and 2008, we are no longer a development stage company in 2008, as we now have our ongoing consulting and strategic advisory services business segment, having recognized revenue earned in each of the quarters of 2008.

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

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

### **1. Business and Summary of Significant Accounting Policies (continued)**

Certain amounts in the prior year consolidated financial statement and notes have been revised to conform to the current-year presentation.

## **b) Use of Estimates and Assumptions**

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.

### **Significant 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 and stock options, the net operating loss carry-forward, cost estimates relating to our consulting contracts, the valuation allowance for deferred taxes and various contingent liabilities. It is reasonably possible that 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.

## **Risks and Uncertainties**

The Company's future operations and earnings will depend on the results of the Company's operations in foreign countries. There can be no assurance that the Company will be able to successfully continue to conduct such operations, and a failure to do so would have a material adverse effect on the Company's financial position, results of operations, and cash flows. Also, the success of the Company's operations will be subject to other numerous contingencies, some of which are beyond management's control. These contingencies include general and regional economic conditions, prices for the Company's services, competition, changes in regulations, changes in accounting and taxation standards, inability to achieve our overall long-term goals, future impairment charges and global or regional catastrophic events. Because the Company is dependent on international operations, particularly in one country right now, the Company will be subject to various additional political, economic, and other uncertainties.

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 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. Potentially, a loss of a key officer, key management, and other personnel could impair our ability to successfully execute our business strategy, particularly when these individuals have acquired specialized knowledge and skills with respect to nuclear power and our operations.

Our Company monitors our operations with a view to minimizing the impact to our overall business that could arise as a result of the risks and uncertainties inherent in our business.

## **c) Revenue Recognition**

### **Consulting Business Segment**

Revenue at the present time we are deriving all of our revenue from our consulting and strategic advisory services business segment, by offering services to foreign governments planning to create or expand electricity generation capabilities using nuclear power plants. Our fee structure for each client engagement is dependent 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 electrical generation capabilities using nuclear power plants, and other factors. The accounting policy we use to recognize revenue depends on the terms of the specific contract. All

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

**NOTES TO THE CONSOLIDATED FINANCIAL  
STATEMENTS**

**1. Business and Summary of Significant Accounting Policies  
(continued)**

of our consulting contracts mentioned below are with the EAA of Abu Dhabi, one of the member Emirates of the UAE, and the related entities to be formed: Emirates Nuclear Energy Corporation ( ENEC ) and Federal Authority for Nuclear Regulation ( FANR ). All of the Company s revenues recognized for the first quarter of 2008 were recognized under the completed performance model of revenue recognition for our first consulting project with EAA (Road Map).

We recognize revenue associated with fixed-fee service contracts in accordance with the proportional performance method, measured by the percentage of costs (primarily labor) incurred to date as compared to the estimated total costs (primarily labor) for each contract. When a loss is anticipated on a contract, the full amount of the anticipated loss is recognized immediately. Our management uses its judgment concerning the estimation of the total costs to complete the contract considering a number of factors, including the experience of the personnel that are performing the services, and the overall complexity of the project. Should changes in management s estimates be required, due to business conditions that cause the actual financial results to differ significantly from management s present estimates, revenue recognized could be adversely affected. For other contracts, revenue is recognized on a time and materials basis.

**Technology Business Segment**

Once the company s thorium-based nuclear fuel designs have advanced to a commercially usable stage, the company will seek to license our 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.

**d) Trade Accounts Receivable**

We record trade accounts receivable at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts to reflect any loss anticipated on the trade accounts receivable balances and charged to the provision for doubtful accounts. We calculate this allowance based on our history of write-offs, level of past-due accounts based on the contractual terms of the receivables, and our relationships with and the economic status of our customers. There was no provision for doubtful accounts recorded at December 31, 2008.

**e) Deferred Project Costs**

All costs directly related to producing the work under the agreements with the UAE, such as consulting costs, other professional fees and various administrative support and other costs, are capitalized as deferred project costs (current

asset on the accompanying balance sheet). Deferred project costs are then recognized or amortized to an expense captioned, cost of consulting services provided (on the accompanying statement of operations), when the revenue is to be recognized or when the project is completed.

#### **f) 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 two operating segments as mentioned above and defined by SFAS 131, Disclosures about Segments of an Enterprise and Related Information. The two reporting business segments are our technology business and our consulting and strategic advisory services business.

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

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

#### **1. Business and Summary of Significant Accounting Policies (continued)**

##### **g) Cash and Cash Equivalents and Marketable Securities**

###### **Cash Equivalents**

We classify marketable securities that are highly liquid and have maturities of three months or less at the date of purchase as cash equivalents. We manage our exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties and procedures to monitor our credit risk concentrations.

##### **h) Fair Value Measurements:**

We adopted SFAS No. 157, Fair Value Measurements, effective January 1, 2008 for financial assets and liabilities measured on a recurring basis. SFAS No. 157 applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. In February 2008, the FASB issued FSP No.157-2, which delayed the effective date of SFAS No. 157 by one year for non-financial assets and liabilities. On October 10, 2008, FSP FAS 157-3 was issued to clarify SFAS No. 157. As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS No. 157 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement requires that fair value measurements be classified and disclosed in one of the following categories:

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, Level 1: unrestricted assets or liabilities. We consider active markets as those in which transactions for the assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability. This category includes those derivative instruments that we value using observable market data. Substantially all of these inputs are observable in the marketplace Level 2: throughout the full term of the derivative instrument, and can be derived from observable data or supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange traded derivatives such as over-the-counter commodity price swaps, investments, and interest rate swaps.

Level 3: Measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources (i.e., supported by little or no market activity). We held approximately \$1.6 million of auction rate securities throughout the year of 2008, which were classified at a Level 3 fair value measurement. These securities were originally recorded at face value because their full redemption at face value was guaranteed by the financial institution holding these securities. In the fourth quarter of 2008 this financial institution redeemed all of these securities at their full face value. We did not hold any marketable securities at December 31, 2008, therefore the balance in the balance sheet account captioned accumulated other comprehensive income was \$0 at December 31, 2008.

Unrealized gains and losses and the related deferred income tax effects are excluded from earnings and reported as a separate component of stockholders' equity, other comprehensive income (loss). Realized gains or losses are computed based on specific identification of the securities sold. Our fourth quarter results reflect the full redemption of these auction rate securities by this financial institution, therefore the previous realized or impairment loss recorded on these auction rate securities of \$438,750 that was recognized in the second quarter of 2008, was reversed through the income statement in the fourth quarter 2008, resulting in no gain or

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**THORIUM POWER, LTD.  
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**NOTES TO THE CONSOLIDATED FINANCIAL  
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**1. Business and Summary of Significant Accounting Policies  
(continued)**

loss on these securities for the year ended December 31, 2008. There was a realized gain of \$30,143, reported as other income and expense on the accompanying statement of operations, for the year ended December 31, 2008.

### **i) Concentration of Credit Risk Cash and Restricted Cash**

Cash in bank accounts is at risk to the extent that it exceeds Federal Deposit Insurance Corporation insured amounts. Substantially all cash is deposited in one prominent U.S. financial institution. At December 31, 2008 there was approximately \$5 million held at this one financial institution.

The company had also deposited money with Capital One for its secured credit card program, which required us to place a \$650,000 deposit into their account as collateral against future credit card charges. This amount was recorded under the caption restricted cash, on the accompanying balance sheet at December 31, 2008.

### **j) 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 recognized 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. Expenses related to maintenance and repairs are recognized as the costs are incurred.

### **k) 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 as well as 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.

The Company adopted FASB Interpretation No. 48 Accounting for Uncertainty in Income taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). This interpretation provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS No. 109 Accounting for Income Taxes. FIN 48 prescribes a threshold condition that a tax position must meet for any of the benefits of the uncertain tax position to be recognized in the financial statements. FIN 48 also provides accounting guidance on derecognizing, classification and disclosure of these uncertain tax positions.

### **l) 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

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**THORIUM POWER, LTD.  
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**1. Business and Summary of Significant Accounting Policies  
(continued)**

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.

**m) 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, 2008 and 2007, the Company stock equivalents were anti-dilutive and excluded in the diluted loss per share computation.

**n) 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

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**THORIUM POWER, LTD.  
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**NOTES TO THE CONSOLIDATED FINANCIAL  
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**1. Business and Summary of Significant Accounting Policies  
(continued)**

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, 2008 and determined that the future undiscounted cash flows associated with the Patent rights were sufficient to recover its carrying value on the balance sheet.

**o) 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. Total unrealized loss recorded for the year ended December 31, 2008 was \$30,143.



**p) 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.

**q) Recently Issued Accounting Standards**

In February 2007, the FASB issued SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* including an amendment of FASB Statement No. 115 ( SFAS No. 159 ), which permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Adoption is required for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company in the first quarter of fiscal year 2009. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS Statement No. 157. The adoption of SFAS No. 159 had no effect on the Company's financial statements.

In April 2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets*, (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of FSP 142-3 will have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles ( GAAP ) for nongovernmental entities. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The provisions of SFAS No. 162 will not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In June 2008, the FASB ratified EITF Issue No. 08-3, *Accounting for Lessees for Maintenance Deposits Under Lease Arrangements* (EITF 08-3). EITF 08-3 provides guidance for accounting for nonrefundable maintenance deposits. It also provides revenue recognition accounting guidance for the lessor. EITF 08-3 is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of EITF Issue No. 08-3 will have a material impact on the Company's consolidated financial position, results of operations and cash flows.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Business and Summary of Significant Accounting Policies (continued)

### r) Intangible Assets Patents

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

### s) 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 2008 and 2007.

## 2. Financial Status of the Company

The company is currently updating its strategic plan for 2009 to determine its future cash needs. Management anticipates, based on its current working capital and projected working capital requirements, that it will have enough working capital funds to sustain its current operations at its current operating level until sometime in 2010. In support of the Company's longer-term business plan, the Company 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 its research and development expenditures. The Company may also need to raise additional capital sooner to support its overhead operation if the consulting and strategic advisory services business becomes non-sustaining. Currently, the Company is restructuring its operations and working on revenue opportunities with the overall goal of increasing the company's profitability and cash flow. The Company expects to meet all of its financial commitments and operating needs for 2009.

## 3. Consulting Revenues

### Road Map Project

All of the Company's revenues recognized for the first quarter of 2008 were recognized under the completed performance model of revenue recognition for our first consulting project with EAA (Road Map). The consulting fee under this contract could have been refundable to our client, under the provisions of this contract, if we would have breached the contract, such as not deliver the final report to the foreign government. We received our fee for this contract in December 2007, in advance of our billing in March 2008. The total consulting revenue recognized under this contract during the three months ended March 31, 2008, was \$3.8 million.

### Quick Start Project

All of the Company's revenues for the second quarter of 2008 were derived from the completion of the defined contract deliverables required from the second consulting contract entered into in March 2008 with the EAA, and

completed in June 2008. This contract called for on-going consulting services from March 2008 through June 22, 2008. We started work on this project in April 2008. All revenue earned under this contract, \$4.3 million (which was received in April 2008), was recognized ratably during the second quarter of 2008.

## **ENEC and FANR Projects**

Substantially all of the Company's remaining revenue earned in the amount of \$14.1 million for 2008, has been derived from the two consulting contracts we entered into in August 2008, for consulting services rendered from June 23, 2008 through December 31, 2008. These contracts provided for a total payment of \$17.4 million, with \$10 million paid upfront by the EAA on behalf of two new governmental agencies to be formed (\$5 million paid on behalf of each entity, a total of \$10 million received in September 2008), and the remaining total balance of \$7.4 million to be paid by each of the new governmental entities equally, upon their formation. These new government entities will be called the Emirates Nuclear Energy Corporation ( ENEC ) and the Federal Authority for Nuclear Regulation ( FANR ). We will continue to provide strategic

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

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

#### **3. Consulting Revenues (continued)**

advisory services to both of these entities during the five year term of these agreements. Under these agreements, revenue was initially being derived as a fixed professional fee agreement for \$17.4 million, but the 2008 revenue amount was settled with the EAA on a time and material basis and adjusted to \$14.1 million. We periodically discuss our consulting work with the EAA to review the work we perform to date, and to also plan the scope of future work to be performed.

Travel costs and other reimbursable costs under the contracts are not reported as revenue but were offset, in accordance with the consulting agreements against an expense advance paid to us and recorded on the balance sheet account captioned "customer deposit account", until the total amount advanced by the customer for reimbursable costs was depleted in 2008. The customer deposit account was money advanced to us for reimbursable expenses that were incurred in accordance with the contracts with the EAA. At December 31, 2007, the customer deposit account was presented as a current liability on the balance sheet.

The total travel and other reimbursable expenses charged for these consulting contracts that have not been reimbursed to us, are being presented on the accompanying balance sheet and included in accounts receivable in the amount of \$1,271,024 at December 31, 2008. The remaining accounts receivable reported on the accompanying balance sheet represents fees due for the work performed in 2008 for the ENEC and FANR projects, mentioned above, totaling \$4,086,780 at December 31, 2008 (\$3,922,728 payment was received on January 27, 2009).

## 4. Business Segments

The Company has two principal operating segments, which are (1) technology and (2) consulting and strategic advisory services. These operating segments were determined based on the nature of the operations and the services offered. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, in deciding how to allocate resources and in assessing performance. The Company's chief executive officer, chief operating officer and chief financial officer have been identified as the chief operating decision makers. The Company's chief operating decision makers direct the allocation of resources to operating segments based on the profitability, the cash flows, and the business plans of each respective segment.

The Company evaluates performance based on several factors, of which the primary financial measure is business segment income before taxes. The accounting policies of the business segments are the same as those described in Note 1: Summary of Significant Accounting Policies. There is no allocation of corporate level assets or certain corporate expenses even though they contribute to both segments. The following tables show the operations of the Company's reportable segments for the year ended December 31, 2008. In 2007, the company was a development stage company and we did not provide any consulting services, therefore all expenses in 2007 were considered to be corporate expenses, other than research and development expenses of \$756,755 for the year ended December 31, 2007.

December 31, 2008	Consulting	Technology	Corporate and Eliminations	Total 12 Months
Revenue	22,219,905			22,219,905
Segment Profit (Loss) Before Tax	11,131,182	(2,505,990)	(11,474,568)	(2,849,376)
Total Assets	1,278,020	217,875	10,950,882	12,446,777
Property Additions			102,113	102,113
Interest Expense				
Depreciation			24,668	24,668

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. Research and Development Costs

Research and development costs, included in the statement of operations amounted to \$1,565,594 and \$756,755 for the years ended December 31, 2008 and 2007, respectively. Total cumulative expense has amounted to approximately \$6.3 million from January 8, 1992 (date of inception of Thorium Power, Inc.) to December 31, 2008. For segment reporting, the Company has included certain costs for the technology segment that are reported in the statement of

operations under general and administrative and stock based compensation operating expenses. These additional costs which total \$940,396 for the year ended December 31, 2008 are mostly related to compensation paid to employees and consultants supporting our research and development activities.

## 6. Property Plant and Equipment

The following represents the detail of the Company's property, plant and equipment at December 31, 2008 and 2007:

	2008	2007
Furniture, computer and office equipment	\$ 167,139	\$ 42,809
Automobile	0	22,217
Total	167,139	65,026
Accumulated Depreciation	59,018	34,350
Net Book Value	\$ 108,121	\$ 30,676

Depreciation expense for the years ended December 31, 2008 and 2007 was \$24,668 and \$8,583, respectively. Asset lives are five years and the depreciation method is straight line for all the above assets. All property is located in the United States of America. There was no gain or loss on assets disposed of in 2008. Assets disposed of and written off the books in 2008 had a total cost of \$24,841, which consisted mainly of the automobile. Additional depreciation was recorded on the automobile in 2008 before it was written off the books, which was not significant to these accompanying financial statements.

## 7. 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, 2008 and 2007.

The following table summarizes the lives and carrying values of the Company's patents at December 31, 2008 and 2007:

Patents	\$ 411,669
Accumulated amortization	(193,794 )
Net book value	\$ 217,875

Amortization expense of patents was \$- and \$- for the years ended December 31, 2008 and 2007 and \$193,794 for the cumulative period from January 8, 1992 (Inception) to December 31, 2008. These patents were not placed in service for the years ended December 31, 2008 and 2007.

## 8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

	2008	2007
Trade Payables - project expenses	\$ 1,124,711	\$ 355,923
Accrued Expenses - research and development	801,082	410,000
Accrued Payroll and Severance	1,863,333	825,998
Other Trade Payables	1,349,853	530,728
	\$ 5,138,979	\$ 2,122,649

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**THORIUM POWER, LTD.  
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**NOTES TO THE CONSOLIDATED FINANCIAL  
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**9. Stockholders Equity**

Total Common stock outstanding at December 31, 2008 was 301,493,084. At December 31, 2008, there were 52,084,522 stock options outstanding, all totaling 353,577,606 of total stock and stock equivalents outstanding at December 31, 2008.

**a) Common Stock Issuances**

On March 14, 2008, 320,350 stock options that were assumed in the merger and held by one consultant were exercised at a strike price of \$.156 per share for total consideration of \$49,975. Accordingly, 320,350 shares of the company's common stock were issued in accordance with this option agreement. On May 13, 2008 and December 29, 2008, a total of 158,552 shares were issued to our independent directors in accordance with their respective director agreements for serving as directors, valued at an average price of approximately \$0.25 per share for a total value of \$40,000, for services rendered. 2,000,000 shares reserved for future issuance to two executive officers pursuant to their employment contracts, were issued in 2008.

**b) 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, 2008);
- (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
- (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.

Total stock options outstanding at December 31, 2008 were 52,084,522 of which 37,422,444 of these options were vested at December 31, 2008.

Stock option transactions to the employees, directors, advisory board members and consultants are summarized as follows for the year ended December 31, 2008:

Stock Options Outstanding	2008
Beginning of the Year	51,354,656
Granted	2,542,458
Exercised	(320,350 )
Forfeited	(1,492,242 )
Outstanding end of the period	52,084,522
Options exercisable at the end of the period	37,422,444

The above table includes options issued as of December 31, 2008 as follows:

- i). A total of 12,537,500 non-qualified 5 – 10 year options have been issued by Thorium Power, Ltd., and are outstanding, to advisory board members at exercise prices of \$0.25 to \$0.64 per share.  
A total of 32,451,420 2 – 10 year options have been issued to directors, officers and employees of the Company and are outstanding, at exercise prices of \$0.156 to \$0.795 per share. From this total, 12,629,505 options are
- ii). outstanding to the Chief Executive Officer who is also a director, with remaining contractual lives of .5 months – 8.9 years. All other options issued have a remaining contractual life ranging from .96 years to 9.6 years.

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**THORIUM POWER, LTD.  
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**NOTES TO THE CONSOLIDATED FINANCIAL  
STATEMENTS**

**9. Stockholders Equity (continued)**

- iii). A total of 7,095,602 non-qualified 3 – 10 year options have been issued and are outstanding to consultants of the Company, at exercise prices of \$0.16 to \$0.5 per share.

The following table provides certain information with respect to the above-referenced stock options that are outstanding and exercisable at December 31, 2008:

Exercise Prices	Stock Options Outstanding		Stock Options Vested	
	Weighted Average Remaining Contractual Life	Number of Awards	Number of Awards	Weighted Average Exercise Price
\$0.16 – \$0.29	4.2	18,221,029	14,314,454	\$ 0.19
\$0.30 – \$0.44	7.4	7,261,313	4,188,875	\$ 0.35
\$0.445 – \$0.63	5.3	17,402,180	11,819,115	\$ 0.47
\$0.64 – \$0.80	7.2	9,200,000	7,100,000	\$ 0.76
Total	5.5	52,084,522	37,422,444	\$ 0.40

The aggregate intrinsic value of stock options outstanding at December 31, 2008 was \$0 of which \$0 related 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 (\$0.14 per share as of December 31, 2008)

Assumptions used in the Black Scholes option-pricing model for the years ended December 31, 2008 and 2007 were as follows:

Average risk free interest rate	2.59%	5.24%
Average expected life	3	10 years
Expected volatility	96%	127%
Expected dividends	0%	

During the years ended December 31, 2008 and 2007, \$6,506,492 and \$4,745,098 respectively, was recorded as stock-based compensation expense in the statement of operations (this total amount of stock based compensation for the year ended December 31, 2008, included stock based compensation in the amount of \$856,657 to employees and others providing revenue generating services, that was presented in the financial statements as cost of consulting services). The result of all the above stock option grants that occurred after January 1, 2006 for Thorium Power Inc and stock option grants for Thorium Power Ltd that were recorded in the statement of operations totaled \$6,138,220 and \$3,991,317 for the years ended December 31, 2008 and 2007 respectively (non-deductible for tax purposes, may provide a tax deduction for the Company when exercised).

Stock compensation to two executive officers totaled \$590,000, as a one-time stock grant pursuant to employment agreements that they entered into in 2007, was recorded to deferred stock compensation (total 2 million shares were reserved for future issuance in September 2007). The Company will issue additional shares of common stock of 127,626, which was granted in May 2008 to 3 employees that resulted in \$36,373 of deferred stock compensation, and 356,429 shares granted to 8 employees in August 2008, that resulted in \$78,414 of deferred stock compensation. The amortization of deferred stock compensation, recorded as stock based compensation for the years ended December 31, 2008 and 2007 was \$368,272 and \$110,556, respectively. The remaining stock-based compensation was issued to two directors, as mentioned above, which resulted in recording \$40,000 of director fees.

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

**NOTES TO THE CONSOLIDATED FINANCIAL  
STATEMENTS**

**9. Stockholders Equity (continued)**

**c). Warrants**

There no warrants outstanding as of December 31, 2008.



**d). Common Stock reserved for Future Issuance**

Common stock reserved for future issuance consists of:

	Shares of Common Stock	Stock Purchase Warrants	Amount
Stock-based Compensation	484,055	0	\$ 114,787

**10. Income Taxes**

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, 2008 and 2007 respectively, are as follows:

	Total Amount		Deferred Tax Asset Amount	
	2008	2007	2008	2007
Deferred Tax Assets				
Capitalized start up costs	\$7,125,807.00		\$2,850,323.00	
Stock-based compensation	12,775,215.00	\$6,636,995.00	5,110,086.00	\$2,654,798.00
Approximate net operating loss carryforward	10,000,000.00	12,100,000.00	4,000,000.00	4,840,000.00
Less: valuation allowance	(29,901,022.00)	(18,736,995.00)	(11,960,409.00)	(7,494,798.00)
	\$	\$	\$	\$

The Company has net operating loss carry forward for federal and state tax purposes with substantially all of the net operating losses expected to expire unused or not be available to offset future taxable income, due to the Internal Revenue Code Section 382 limitation for the ownership change that occurred on October 6, 2006. As a result, the amount of the deferred tax assets considered realizable was reduced 100% by a valuation allowance. In 2009, the company will compute the actual Internal Revenue Code Section 382 limitation which is anticipated to offset the estimated taxable income in 2008 of \$1.3 million and will change the reported net operating loss carry forward estimated at \$10,000,000 above, and the valuation allowance shown above. The net operating loss carryforward does include approximately \$1.4 million that represents operating loss carryforwards generated subsequent to October 6, 2006, and are therefore not subject to any Section 382 limitation. The Company has no other deferred tax assets or liabilities. The change in the valuation allowance was \$4,465,611 for the year ended December 31, 2008.

The company will file a consolidated tax return in 2008 with its subsidiaries.

The company had paid income taxes in the amount of \$31,939 as many of the company's operating expenses in its 2007 and 2006 tax years were classified under the internal revenue code as capitalized start-up costs which were not deductible for tax purposes, and the company had interest income that was taxable for tax purposes. The Company filed a refund claim to the IRS in 2008 for these federal taxes paid and received its refund in 2008. The remaining income tax expense represents the income taxes paid that were not refunded.

# **THORIUM POWER, LTD.**

## **(A Development Stage Company)**

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

#### **11. Research Agreement**

On September 15, 2008, Thorium Power, Inc. ( TPI ), a wholly-owned subsidiary of the Company, entered into an agreement for post-irradiation examination of experimental fuel element (the Agreement ) with the Russian Research Centre Kurchatov Institute ( Kurchatov ). Under the Agreement, Kurchatov agreed to perform post-irradiation examination of an irradiated uranium-zirconium seed fuel sample using non-destructive and destructive methods. Pursuant to the Agreement, TPI is obligated to pay to Kurchatov a total of approximately \$138,000, and Kurchatov is obligated to transfer to TPI the worldwide rights in all of the post-irradiation examination data generated in the course of performance by Kurchatov of work under the Agreement. Kurchatov agrees not to use, in any manner, the work product associated with such post-irradiation examination work or exercise any rights associated therewith without the written consent of TPI. Further, Kurchatov is obligated to provide to TPI and its affiliates specified information and documentation for audit purposes, and to obtain any and all permits from Russian governmental entities which may be required in order for Kurchatov to perform under the Agreement. In addition to this agreement, there are consulting agreements with several consultants working on various projects for the company, which total approximately \$20,000 per month.

#### **12. Commitments and Contingencies**

##### **Commitments and Contractual Obligations**

The Company has employment agreements with its executive officers and some consultants, 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.

The Company moved from its prior office facility and has entered into an agreement to lease new office space, under the terms of a sublease with a term of 65 months commencing August 1, 2008. Under the terms of the sublease, the lease payments are inclusive of pass-through costs, which include real estate taxes and standard operating expenses. As of December 31, 2008, the Company has paid the security deposit related to this sublease agreement in the amount of \$120,486. The Company pays monthly rental fees in the amount of \$40,162 in the first year of the sublease agreement, and payments increase by a factor of 4% each year thereafter. The Company may terminate this agreement by providing 60 days notice to the Sublessor. Total rent expense for the year ended December 31, 2008 was \$459,411.

The monthly straight-line rental expense from August 1, 2008 to December 1, 2013 is \$45,189. As a result of the straight-line rent calculation generated by the one free rent period and rent escalation, the Company has a deferred rent credit at December 31, 2008 of \$56,379.

Future estimated rental payments under our operating leases are as follows:

		Total
Year Ending	December 31, 2009	\$ 561,640
Year Ending	December 31, 2010	536,467
Year Ending	December 31, 2011	564,109
Year Ending	December 31, 2012	586,136
Year Ending	December 31, 2013	609,016
Total Minimum lease payments		\$ 2,857,368

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## SIGNATURES

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

**THORIUM POWER, LTD.**

By:

Date: March 26, 2009

/s/ Seth Grae  
Seth Grae  
Chief Executive Officer,  
President and Director

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title
/s/ Seth Grae Seth Grae	Chief Executive Officer, President and Director (Principal Executive Officer)
/s/ James Guerra James Guerra	Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ Thomas Graham, Jr. Thomas Graham, Jr.	Director
/s/ Victor Alessi Victor Alessi	Director
/s/ Jack Ladd Jack Ladd	Director
/s/ Dan Magraw Dan Magraw	Director

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## EXHIBIT INDEX

Description

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Exhibit  
Number

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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