

NOVASTAR RESOURCES LTD.
Form SB-2/A
July 03, 2006

Registration No. 333-135437

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FORM SB-2
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933**

(Amendment No. 1)

**NOVASTAR RESOURCES LTD.
(Name of small business issuer in its charter)**

Nevada (State or other jurisdiction of incorporation or organization)	1000 (Primary Standard Industrial Classification Code Number)	91-1975651 (I.R.S. Employer Identification No.)
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(Names, addresses and telephone numbers of agents for service)

Approximate date of commencement of proposed sale to public: From time to time after the effective date of this Registration Statement, as determined by market conditions and other factors.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to

rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

<i>Title of each class of securities to be registered</i>	<i>Amount to be registered (1)</i>	<i>Proposed maximum offering price per share (2)</i>	<i>Proposed maximum aggregate offering price (2)</i>	<i>Amount of registration fee</i>
Common stock, \$0.001 par value (3)	90,786,827	\$ 0.45	\$ 40,854,072.15	\$ 4,371.39
Shares of Common Stock underlying Common Stock Purchase Warrants	22,539,079	\$ 0.45	\$ 10,142,585.55	\$ 1,085.26
Total	113,325,906	\$ 0.45	\$ 50,996,657.70	\$ 5,456.65 (4)

(1) In accordance with Rule 416(a), the Registrant is also registering hereunder an indeterminate number of shares that may be issued and resold resulting from stock splits, stock dividends or similar transactions.

(2) Estimated pursuant to Rule 457(c) of the Securities Act of 1933 solely for the purpose of computing the amount of the registration fee based on the average of the high and low prices reported on the OTC Bulletin Board on June 27, 2006.

(3) Represents shares of the Registrant's common stock being registered for resale that have been issued to the selling stockholders named in this registration statement.

(4) The Registrant now increases the number of shares being registered from 86,576,829 to 113,325,906. \$4,168.67 was previously paid for the registration fee in connection with the filing of the initial registration statement on June 29, 2006.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall hereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

Subject to completion, dated [__], 2006

NOVASTAR RESOURCES LTD.

113,325,906 Shares of Common Stock

This prospectus relates to an aggregate of up to 113,325,906 shares of our common stock which may be resold from time to time by the selling stockholders identified in this prospectus for their own account, consisting of (i) 67,617,245 shares of our common stock issued pursuant to private placements that were completed on November 23, 2005, February 14, 2006 and May 4, 2006 and (2) 45,708,661 shares of our common stock that have been issued to consultants of the Company or that have been issued on the effective date of the Merger to persons who were affiliates of Thorium Power prior to the Merger. Of such shares, (i) 90,786,827 are outstanding upon the effective date of the registration statement to which this prospectus relates, and (ii) up to 22,539,079 shares are issuable upon the exercise of warrants held by certain of the selling stockholders. We will not receive any proceeds from the sales by the selling stockholders, but we will receive funds from the exercise of warrants held by the selling stockholders, if exercised.

Our common stock is quoted on the OTC Bulletin Board maintained by the National Association of Securities Dealers, Inc. under the symbol "NVAS.OB". The closing sales price for our common stock on June 30, 2006 was \$0.45 per share, as reported on the OTC Bulletin Board. You are urged to obtain current market quotations of our common stock before purchasing any of the shares being offered for sale pursuant to this prospectus.

The selling stockholders, and any participating broker-dealers, may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, and any commissions or discounts given to any such broker-dealer may be regarded as underwriting commissions or discounts under the Securities Act. The selling stockholders have informed us that they do not have any agreement or understanding, directly or indirectly, with any person to distribute their common stock.

Investing in the shares being offered pursuant to this prospectus involves a high degree of risk. You should carefully read and consider the information set forth in the section of this prospectus titled "Risk Factors," beginning on page 7, when determining whether to purchase any of these shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is ____, 2006.

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INTRODUCTORY STATEMENT

On February 14, 2006, Novastar, TP Acquisition Corp. a wholly owned subsidiary of Novastar, and Thorium Power, Inc. entered into a merger agreement, as amended on June 12, 2006 (the "Merger Agreement"). The Merger Agreement contemplates that TP Acquisition will be merged with and into Thorium Power, with Thorium Power, the surviving corporation, becoming a wholly-owned subsidiary of Novastar (the "Merger"). On June 14, 2006, we filed a registration statement on Form S-4, registering the shares of our common stock that we will issue to the shareholders of Thorium Power in connection with the Merger (the "S-4 Registration Statement"). The Merger will not be completed until, among other things, the S-4 Registration Statement is declared effective by the Securities and Exchange Commission.

As this registration statement on Form SB-2 will only be effective after the Merger is completed and since the prospectus contained in this registration statement will not be used until the Merger is consummated, the information set forth in this registration statement presents all information as if the Merger was completed, with the exception of the financial statements and Management's Discussion and Analysis, for which information is provided for Novastar and Thorium Power separately, as consolidated financial statements are not yet available. The unaudited pro forma consolidated balance sheet of Novastar reflecting the financial position of Novastar had the Merger occurred on March 31, 2006 is included in the registration statement. These pro forma consolidated financial statements have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the transaction occurred on the date indicated and are not necessarily indicative of the results that may be expected in the future.

PROSPECTUS SUMMARY

This summary highlights some information from this prospectus, and it may not contain all of the information that is important to you. You should read the following summary together with the more detailed information regarding our company and the common stock being sold in this offering, including "Risk Factors" and our financial statements and related notes, included elsewhere in, or incorporated by reference into, this prospectus.

Except as otherwise indicated by the context, references in this prospectus to "Novastar," "we," "us," or "our," are references to the combined business of Novastar Resources Ltd. and our wholly-owned subsidiary, Thorium Power, Inc. The terms "Novastar," "we," "us," or "our" in each case do not include the selling stockholders. References to "Securities Act" are references to the Securities Act of 1933, as amended and references to "Exchange Act" are references to the Securities Exchange Act of 1934, as amended.

The Company

Our Business Generally

We have two different lines of business. Our primary line of business is research and development of proprietary nuclear fuel technology for use in nuclear power plants. Our second line of business is mineral exploration. We refer to our primary line of business as our Nuclear Fuel Design Business and we refer to our secondary line of business as our Mineral Exploration Business.

With regard to the Nuclear Fuel Design Business, Novastar has proprietary nuclear fuel designs for use in certain existing commercial nuclear power plants. Its designs are for fuels that will serve (i) the market for U.S. and Russian weapons grade plutonium disposition; (ii) the market for disposition of reactor-grade plutonium that has already been separated or reactor-grade plutonium currently embedded in spent nuclear fuel that can be separated through reprocessing of such spent fuel; and (iii) the market for commercial thorium-uranium nuclear fuel. The above designs require additional developmental work to be used in reactors, and Novastar plans to fully develop and commercialize these fuel designs with the cooperation of U.S. and foreign governments and other nuclear businesses.

Our objective with regard to the Nuclear Fuel Design Business is to develop fast, and cost-effective designs for disposing of weapons-grade and reactor-grade plutonium by using the plutonium combined with thorium as reactor fuel and to develop proliferation resistant nuclear fuel designs and to patent and commercialize these designs in collaboration with public and private entities worldwide.

With regard to our Mineral Exploration Business, as of fiscal year-end June 30, 2005, we had no mineral properties, but subsequently acquired mineral leases and claims located in Alabama, USA and North Queensland, Australia, respectively. These are exploration stage mineral properties prospective for thorium, platinum group metals (platinum group metals) and other rare earth minerals (REM).

The phosphate mineral monazite, which exists in sands, contains concentrations of thorium oxide as well as other REM. All commercially viable thorium metal is extracted from monazite. Utilizing thorium based nuclear fuels has several important societal benefits, such as safety benefits, environmental benefits, and non-proliferation benefits. Thorium is more abundant, more efficient and safer to use as a reactor fuel than uranium. Also important, thorium fueled reactors leave behind very little weapons grade plutonium. To this end, Novastar has acquired, and may acquire, both physical properties and rights to properties that contain monazite deposits. Properties of interest to Novastar contain both monazite stockpiles and in ground concentrations of monazite.

Our objective with regard to the Mineral Exploration Business is to become a global supplier of thorium to the nuclear energy industry.

Background

Novastar Resources Ltd. was incorporated under the laws of the state of Nevada on February 2, 1999, under the name of Aquistar Ventures (USA) Inc. Novastar was organized for the purpose of exploring for and, if possible, developing mineral properties primarily in the province of Ontario, Canada, through our wholly owned subsidiary, Aquistar Ventures Inc. ("Aquistar Canada"). Aquistar Canada was incorporated under the laws of the province of British Columbia, Canada, on April 13, 1995 and is now inactive.

On February 2, 2001, Novastar acquired 100% of the issued and outstanding capital stock of Custom Branded Networks, Inc. or CBN, a Delaware corporation, in exchange for 25,000,000 common shares of Novastar. We then changed our name to Custom Branded Networks, Inc. on or about May 29, 2001. The business of CBN, the Delaware corporation which was Novastar's wholly owned subsidiary, was the provision of turnkey private label Internet solutions to businesses and private organizations.

In May of 2003 Novastar began actively looking for other business opportunities that would provide superior economic opportunity, and in January 2005 we retained consultants to assist in the identification of opportunities in the nuclear sector, particularly with respect to thorium fuel and technology. Effective May 10, 2005, we changed our name to Novastar Resources Ltd. During the period from September through December 2005, we entered into three agreements to acquire mining interests in two properties in Alabama and one property in Queensland, Australia.

As soon as practicable after the S-4 Registration Statement is declared effective as well as the satisfaction of the relevant closing conditions, we will acquire Thorium Power and our Nuclear Fuel Design Business when our wholly-owned subsidiary that was formed to act as an acquisition vehicle, TP Acquisition Corp., and Thorium Power, Inc. complete a merger whereby TP Acquisition merges with and into Thorium Power, which shall become a wholly owned subsidiary of Novastar. As indicated in the Introductory Statement, the information set forth in this registration statement presents all information as if the Merger was completed.

Recent Capital Raising

On November 23, 2005, we completed a private placement with a number of institutional and accredited investors. The aggregate number of units purchased by all investors in connection with this private placement was 4,209,998 units at a price of \$0.15 per unit, to 21 accredited investors for total proceeds of \$631,500 the (“November 23 Private Placement Shares”). Each unit consists of one share of our common stock and one-half of one share of common stock purchase warrant. Each whole warrant is non transferable and entitles the holder to purchase one additional share of common stock of the Company for a period of 12 months after the closing date of the offering at a price per warrant share of \$0.30 (the “November 23 Warrants”).

On February 14, 2006, we completed a private placement with a number of institutional and accredited investors. The aggregate number of units purchased by all investors in connection with this private placement was 4,208,331 units at a price of \$0.30 per unit, to 13 accredited investors for total proceeds of \$1,262,500 the (“February 14 Private Placement Shares”). Each unit consists of one share of our common stock and one-half of one share of common stock purchase warrant. Each whole warrant is non transferable and entitles the holder to purchase one additional share of common stock of the Company for a period of 12 months after the closing date of the offering at a price per warrant share of \$0.50 (the “February 14 Warrants”).

On May 4, 2006, we completed a private placement with a number of institutional and accredited investors. The aggregate number of units purchased by all investors in connection with this private placement was 36,659,837 units at a price of \$0.425 per unit, for a total of \$15,580,434 (the “May 4 Private Placement Shares”). On May 4, 2006, the 200 day moving average stock price for Novastar was \$0.44 per share. Each unit consists of one share of our common stock and one-half of one share of common stock purchase warrant. Each whole warrant is non transferable and entitles the holder to purchase one additional share of common stock of the Company for a period of 12 months after the closing date of the offering at a price per warrant share of \$0.65 (the “May 4 Warrants”).

The November 23 Private Placement Shares, the February 14 Private Placement Shares and May 4 Private Placement Shares were sold pursuant to subscription agreements between Novastar and each subscriber in the offering. We also entered into a registration rights letter agreement with each subscriber in the May 4 Private Placement. Among other things, the registration rights agreement requires us to file a Registration Statement on Form SB-2 (or if Form SB-2 is not available, on such other form that is available) with the Securities and Exchange Commission simultaneous with the filing of a registration statement on Form S-4 in connection with the business combination of Novastar with Thorium Power, or within 15 days thereafter, to enable the resale of the shares and the warrant shares by the subscribers. The registration rights agreement also requires us to use reasonable best efforts to cause the registration statement to be declared effective as soon as possible, but in any event not later than the earlier of (a) the 120th day following the closing date of the offering referenced in the subscription agreement and (b) the fifth trading day following the date on which we are notified by the SEC that the registration statement will not be reviewed or is no longer subject to further review and comments. The registration rights agreement also requires Novastar to use reasonable best efforts to keep the registration statement effective until the earlier of (i) two years from the date of the final exercise of all the warrants, (ii) the date on which the subscriber may sell all shares and warrant shares then held by the subscriber pursuant to Rule 144 without restriction as to the number of securities as of a particular date that can then be immediately sold, or (iii) the public sale of all of the shares and the warrant shares. If the registration statement is not filed within the time frame described above, then we are required to issue to each subscriber cash or additional units (at the subscriber's option), as liquidated damages, equal to 2% of the number of units for which the subscriber subscribed on each monthly anniversary of the failure to file (if the failure has not been cured by such date). If the registration statement is not declared effective within the time frame described above, then we must issue to the subscriber cash or additional units (at the subscriber's option), as liquidated damages, equal to 2% of the number of units for which the subscriber subscribed on each monthly anniversary of the failure to be declared effective (if the failure has not been cured by such date). If the registration statement ceases to be effective after the date first declared effective by the SEC and prior to the expiration of the effectiveness period described above, then we are obligated to issue to each subscriber cash or additional units (at the subscriber's option), as liquidated damages, equal to 2% of the number of units for which the subscriber subscribed on each monthly anniversary of the registration statement ceasing to be effective (if the failure has not been cured by such date). In no event, however, shall the aggregate amount of cash or number of units issued as liquidated damages in the case of (a) a failure to file (as described above), (b) a failure to be declared effective (as described above) or (c) the registration Statement ceasing to be effective (as described above), exceed 12% of the amount of cash paid or the number of units paid for by the subscriber.

Pursuant to this prospectus, we are registering, among other shares described on page 54, the November 23 Private Placement Shares, the February 14 Private Placement Shares and the May 4 Private Placement Shares described above for resale by the selling stockholders identified on pages 54-60. These shares may be offered by the selling stockholders through public or private transactions, at prevailing market prices or at privately negotiated prices. See "PLAN OF DISTRIBUTION" on page 62. We will not receive proceeds from the sales by the selling stockholders but we will receive funds from the exercise of the warrants. Our common stock is quoted on the OTC Bulletin Board under the symbol "NVA.S.OB".

The Offering

Common stock offered by selling stockholders	113,325,906 shares
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Common stock outstanding before the offering	272,267,177 shares (1)
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Common stock outstanding after the offering	272,267,177 shares
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Proceeds to us	We will not receive any proceeds from the sale of common stock covered by this prospectus. To the extent that the selling stockholders exercise, for cash, all of the warrants covering the 22,539,079 shares of common stock registered for resale under this prospectus, we would receive approximately \$13,598,027 in the aggregate from such exercises. We intend to use such proceeds for working capital, and other general corporate purposes.
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(1) Represents the number of shares outstanding on the effective date of the Merger.

Risk Factors

Because we are a development stage company with a very limited history of operations, we are subject to many risks associated with early-stage companies. We are subject to numerous risks, including: ongoing significant operating losses that the Company continues to experience due to a lack of revenue; uncertainty about the Company's liquidity and capital resources; reliance on Seth Grae and other key individuals who are likely to be a significant factor in the Company's future growth; risks associated with the Company's Exploration Business, such as existence of a commercially viable deposit or reserves on properties to which the Company has mineral rights, environmental and other industry regulations relating to mining operations, and other risks attributable to mineral companies in general; risks associated with the Company's Nuclear Fuel Design Business, such as uncertainties about new nuclear fuel designs developed by the Company that have only been partially tested in a research reactor and have not been tested or proven in existing commercial reactors or willingness of reactor operators to adopt the Company's new nuclear fuel designs, uncertainties about licensing and regulatory approval process due to significant differences in the Company's fuel designs from fuels currently licensed and used by commercial nuclear power plants, high dependency on U.S. government funding and support for the company's weapons-grade plutonium disposing fuel without which commercialization of this fuel design is unlikely, intellectual property risk including that the company does not have rights to all the processes and methodologies that are used or may be used or useful in its Nuclear Fuel Design Business, political uncertainties from reliance on Russia as the main site where research and development activities on the company's fuel designs are being conducted; risks related to integration of Novastar and Thorium Power after the Merger; high historical volatility of the Company's stock price and other risks related to holding the Company's stock. For a more detailed discussion of some of the risks you should consider before purchasing shares of our common stock, you are urged to carefully review and consider the section entitled "Risk Factors" beginning on page 7 of this prospectus.

Additional Information

Our corporate headquarters are located at 8300 Greensboro Drive, Suite 800, McLean VA 22102. Our telephone number is (703) 918-4904. We maintain a website at www.novastarresources.com that contains information about us, but that information is not a part of this prospectus.

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below before you purchase any of our common stock. If any of these risks or uncertainties actually occurs, our business, financial condition or results of operations could be materially adversely affected. In this event, you could lose all or part of your investment.

BUSINESS RISKS RELATING TO THE NUCLEAR FUEL DESIGN BUSINESS

NOVASTAR'S FUEL DESIGNS HAVE NEVER BEEN TESTED IN AN EXISTING COMMERCIAL REACTOR AND ACTUAL FUEL PERFORMANCE, AS WELL AS THE WILLINGNESS OF COMMERCIAL REACTOR OPERATORS AND FUEL FABRICATORS TO ADOPT A NEW FUEL DESIGN, IS UNCERTAIN.

Nuclear power research and development entails significant technological risk. New designs must be fabricated, tested and licensed before market opportunities will exist. Novastar's 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 tested in an existing commercial reactor. Novastar will not be certain about the ability of the fuel it designs to perform in actual commercial reactors until it is able to commercialize its fuel designs. It will also have to establish a relationship with a fuel fabricator to actually produce fuel using its designs. If the fuel designs do not perform as anticipated in commercial use, Novastar will not realize revenues from the licensing or other use of its fuel designs. In addition, there are several technical challenges involved in commercializing thorium based fuels. Some of the technical challenges with Novastar's technology identified by the experts at the Kurchatov Institute, Westinghouse, and International Atomic Energy Agency, include:

- o 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.
- o Fuel fabrication: Novastar's fuel rod designs are greater than 3 meters long compared to conventional Russian fuel rods that are 1 meter long. The longer rods will required new equipment and experience making longer extrusions.
- o Fuel design: Novastar's "seed-and-blanket" fuel assembly design has a detachable central part which is not in conventional fuel designs.
- o Fuel design: Novastar's fuel design includes 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.

- o Fuel use: Novastar's 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 get regulatory approval.
- o Fuel use: Novastar's fuel are expected to produce energy economically for up to 9 years in the reactor core. Current fuel demonstrates the cladding can remain corrosion-free for up to 5 years. Testing is needed to prove corrosion resistance for the longer residence time.
 - o Fuel reprocessing: The IAEA has identified a number of ways that reprocessing spent thorium fuel would 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.

NOVASTAR'S FUEL DESIGNS DIFFER FROM FUELS CURRENTLY LICENSED AND USED BY COMMERCIAL NUCLEAR POWER PLANTS. AS A RESULT, THE LICENSING AND APPROVAL PROCESS FOR NOVASTAR'S FUELS MAY BE DELAYED AND MADE MORE COSTLY, AND INDUSTRY ACCEPTANCE OF THORIUM POWER'S FUELS MAY BE HAMPERED.

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

- o use of thorium instead of only uranium,
 - o higher uranium enrichment level,
- o seed-and blanket fuel assembly design integrating thorium and uranium,
 - o high burn-up levels of uranium,
 - o use of metallic seed rods,
- o longer residence time of the blanket in the reactor, and
- o the ability of Novastar's fuels to dispose of reactor-grade plutonium and/or weapons-grade plutonium through the use of a new fuel design 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.

NOVASTAR'S PLANS TO DEVELOP ITS THORIUM/WEAPONS-GRADE PLUTONIUM DISPOSING FUEL ARE DEPENDENT UPON U.S. GOVERNMENT FUNDING AND SUPPORT. WITHOUT SUCH SUPPORT, NOVASTAR IS UNLIKELY TO BE ABLE TO SERVE THIS MARKET.

Novastar's business model and specifically its 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. Management believes that participation in this multi-billion dollar market is a critical element in its business modeling. In the past, Novastar has 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. Novastar has spent a significant amount of funds to gain commercial and market acceptance for its fuel designs. Over the last two years Novastar has spent approximately \$400,000, in the aggregate, including both cash and the fair market value of equity compensation, on third party service providers in connection with these lobbying efforts. Novastar expects to spend significantly more money per year than it has in the past over the next three years on these efforts to gain acceptance. These efforts may not result in funding for Novastar or government acceptance of Novastar's technologies for plutonium disposition or other government-funded projects.

NOVASTAR DOES NOT HAVE RIGHTS TO ALL OF THE DESIGNS, PROCESSES AND METHODOLOGIES THAT ARE USED OR MAY BE USED OR USEFUL IN ITS BUSINESS IN THE FUTURE. IF NOVASTAR IS UNABLE TO OBTAIN SUCH RIGHTS ON REASONABLE TERMS IN THE FUTURE, NOVASTAR'S ABILITY TO EXPLOIT ITS INTELLECTUAL PROPERTY MAY BE LIMITED.

Dr. Alvin Radkowsky invented the thorium fuel technology that Novastar is developing. Upon founding Thorium Power (the predecessor company of Novastar) in 1992, Dr. Radkowsky assigned all of his rights in the intellectual property relating to such fuel designs to Thorium Power. Thorium Power then filed patent applications in the United States and other countries and the patents were issued and are held solely by Thorium Power. Novastar is currently conducting fuel assembly design work in Russia through Russian Research Centre Kurchatov Institute, an independent contractor that is closely affiliated with the government of the Russian Federation. Novastar does not have any licensing or other rights to acquire or utilize certain designs, methodologies or processes required for fuel assemblies. If Novastar desires to utilize such processes or methodologies in the future, it must obtain a license or other right to use such technologies from the Kurchatov Institute or other entities that subcontract to the Kurchatov Institute. If Novastar is unable to obtain such a license or other right on terms that it deems to be reasonable, then Novastar may not be able to fully exploit its intellectual property and may be hindered in the sale of its products and services.

NOVASTAR MAY BE UNABLE TO PROTECT ITS 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. Novastar works closely with the Kurchatov Institute in Russia to develop some of its intellectual property and so some of its intellectual property rights derive, or are affected by, Russian intellectual property laws. If the application of these laws to Novastar's intellectual property rights proves inadequate, then it may not be able to fully avail itself of its intellectual property and its business model may therefore be impeded.

NOVASTAR'S RESEARCH OPERATIONS ARE CONDUCTED PRIMARILY IN RUSSIA, MAKING THEM SUBJECT TO POLITICAL UNCERTAINTIES RELATING TO RUSSIA AND U.S.-RUSSIA RELATIONS.

Substantially all of Novastar's present research activities are in Russia. Novastar's research operations are subject to various political risks and uncertainties inherent in the country of Russia. If U.S.-Russia relations deteriorate, the Russian government may decide to scale back or even cease completely its cooperation with the United States on various international projects, including in the plutonium disposition program and nuclear power technology development programs. If this happened, Novastar's research and development program in Russia could be scaled back or shut down, which could have a significant adverse impact on Novastar's ability to execute its business model. Furthermore, the Russian institutes engaged in the Novastar 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 Novastar's 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 some other significant adverse impact on Novastar's project.

NOVASTAR SERVES THE NUCLEAR POWER INDUSTRY, WHICH IS HIGHLY REGULATED.

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

PUBLIC OPPOSITION TO NUCLEAR POWER COULD INCREASE.

Successful execution of Novastar's 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 fuels, 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 an 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, Novastar's nuclear fuel designs rely on fabrication technologies that may be different from the fabrication techniques presently utilized by existing fuel fabricators. In particular, Novastar's metallic seed rods must be produced using a co-extrusion fabrication process that was developed in Russia. Presently, most commercial nuclear fuel is produced using a pellet fabrication technology, whereby uranium oxide is packed into small pellets that are stacked and sealed inside metallic tubes. The co-extrusion fabrication technology involves extrusion of a single-piece solid fuel rod from a metallic matrix containing uranium or plutonium seed fuel. While 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 reactors) so that Novastar's 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 Novastar's 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 Novastar's goals is to make its 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, Novastar may not be able to achieve compatibility sufficient to reduce the extent and costs of required modifications enough to make its design economical for reactor operations.

NOVASTAR'S NUCLEAR FUEL PROCESS IS DEPENDENT ON OUTSIDE SUPPLIERS OF NUCLEAR AND OTHER MATERIALS.

Production of fuel assemblies using Novastar's nuclear fuel designs is dependent on the ability of fuel fabricators to obtain supplies of thorium oxide for the "blanket" component of its 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 Novastar's technology.

BUSINESS RISKS RELATING TO THE MINERAL EXPLORATION BUSINESS

MINERAL EXPLORATION AND DEVELOPMENT ACTIVITIES ARE SPECULATIVE IN NATURE.

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from extraction. The marketability of minerals acquired or discovered by Novastar may be affected by numerous factors which are beyond the control of Novastar and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection, the combination of which factors may result in Novastar not receiving an adequate return on investment capital.

Substantial expenditures are required to establish mineral reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities and grades to justify commercial operations or that funds required for development can be obtained on a timely basis. Estimates of reserves, mineral deposits and production costs can also be affected by such factors as environmental permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ from that indicated by drilling results. Short term factors relating to reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. Material changes in ore reserves, grades, stripping ratios or recovery rates may affect the economic viability of any project.

NOVASTAR IS AN EXPLORATION STAGE COMPANY, AND THERE IS NO ASSURANCE THAT A COMMERCIALLY VIABLE DEPOSIT OR "RESERVE" EXISTS ON ANY PROPERTIES FOR WHICH NOVASTAR HAS, OR MIGHT OBTAIN, AN INTEREST.

Novastar is an exploration stage company and cannot be certain that a commercially viable deposit, or “reserve,” exists on any properties for which Novastar currently has or may have an interest. Therefore, determination of the existence of a reserve depends on appropriate and sufficient exploration work and the evaluation of legal, economic, and environmental factors. If Novastar fails to find a commercially viable deposit on any of its properties, its financial condition and results of operations will be materially adversely affected.

Any potential development and production of Novastar’s exploration properties depends upon the results of exploration programs and/or feasibility studies and the recommendations of duly qualified engineers and geologists. Such programs require substantial additional funds. Any decision to further expand Novastar’s operations on these exploration properties is anticipated to involve consideration and evaluation of several significant factors including, but not limited to:

- o costs of bringing each property into production, including exploration work, preparation of production feasibility studies and construction of production facilities;
- o availability and costs of financing;
- o ongoing costs of production;

- o market prices for the minerals to be produced;
- o environmental compliance regulations and restraints; and
- o political climate and/or governmental regulation and control.

BUSINESS RISKS RELATED TO BOTH THE NUCLEAR FUEL DESIGN BUSINESS AND THE MINERAL EXPLORATION BUSINESS.

NOVASTAR WILL RELY ON SETH GRAE AND CERTAIN OTHER KEY INDIVIDUALS AND THE LOSS OF MR. GRAE OR ANY OF THESE OTHER KEY INDIVIDUALS WOULD HAVE AN ADVERSE EFFECT ON NOVASTAR.

Novastar's success will depend upon Seth Grae and certain other key members of the management team. Mr. Grae's knowledge of the nuclear power industry, his network of key contacts within that industry and in government and, in particular, his expertise in the potential use of thorium as a fuel in nuclear reactors, is critical to the implementation of the prospective business model of the combined company. Mr. Grae and these other individuals are a significant factor in Novastar's future growth and success. The loss of the service of Mr. Grae or these other key members of the management team would have a material adverse effect on Novastar. Novastar does not have key man insurance policies relating to Seth Grae or any other key individuals and does not anticipate obtaining any such insurance.

FINANCIAL RISKS RELATING TO THE NUCLEAR FUEL DESIGN BUSINESS AND THE MINERAL EXPLORATION BUSINESS.

NOVASTAR'S LIMITED OPERATING HISTORY MAKES IT DIFFICULT FOR YOU TO JUDGE ITS PROSPECTS.

Novastar is an exploration stage company that has a limited operating history upon which an evaluation of Novastar, its current business and its prospects can be based. You should consider any purchase of Novastar's shares in light of the risks, expenses and problems frequently encountered by all companies in the early stages of corporate development

NOVASTAR'S BUSINESS AND FINANCIAL CONDITION ARE SUBJECT TO THE RISKS APPLICABLE TO MINING COMPANIES GENERALLY

Factors beyond the control of Novastar may affect the marketability of any substances discovered from any resource properties Novastar may acquire. Metal prices have fluctuated widely in recent years. Government regulations relating to price, royalties, allowable production and importing and exporting of minerals can adversely affect Novastar. There can be no certainty that Novastar will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and operations on any projects it may acquire and environmental concerns about mining in general continue to be a significant challenge for all mining companies.

NOVASTAR WILL BE SUBJECT TO OPERATING HAZARDS, COMPETITION AND DOWNWARD PRICE FLUCTUATION WHICH MAY ADVERSELY AFFECT NOVASTAR'S FINANCIAL CONDITION.

Mineral exploration involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Novastar's operations will be subject to all the hazards and risks normally incidental to exploration, development and production of metallic minerals, such as unusual or unexpected formations, cave-ins or pollution, all of which could result in work stoppages, damage to property and possible environmental damage. Novastar does not have general liability insurance covering its operations. Payment of any liabilities as a result could have a material adverse effect upon Novastar's financial condition.

Significant and increasing competition exists for the limited number of mineral acquisition opportunities available. As a result of this competition, some of which is with large established mining companies with substantial capabilities and greater financial and technical resources than Novastar, Novastar may be unable to acquire attractive mineral properties on terms it considers acceptable.

Novastar has no control over the fluctuations in the prices of the thorium and other rare earth minerals that it is exploring for. A significant decline in such prices would severely reduce the value of Novastar.

NOVASTAR'S ACTIVITIES WILL BE SUBJECT TO ENVIRONMENTAL AND OTHER INDUSTRY REGULATIONS WHICH COULD HAVE AN ADVERSE EFFECT ON THE FINANCIAL CONDITION OF NOVASTAR.

Novastar's activities are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards and enforcement, fines and penalties for non-compliance are more stringent. In addition to existing laws, there can be new federal, state, or local laws banning, restricting, or taxing mining activities planned by Novastar.

Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations could have an adverse effect on the financial condition of Novastar.

The operations of Novastar, including exploration and development activities and commencement of production on its properties require permits from various federal, state, provincial and local governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

THE PRICE OF FOSSIL FUELS OR URANIUM MAY FALL, WHICH WOULD REDUCE THE INTEREST IN NOVASTAR BY REDUCING ECONOMIC ADVANTAGES OF UTILIZING THORIUM BASED FUELS AND ADVERSELY AFFECT THE MARKET PROSPECTS FOR NOVASTAR'S FUEL DESIGNS.

Coal, uranium, natural gas and crude oil prices are currently at very high levels. Management believes the high cost of these fuels 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 Novastar's future operating results.

RISKS RELATED TO THE OWNERSHIP OF NOVASTAR STOCK

THERE MAY BE VOLATILITY IN THE NOVASTAR 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 Novastar's common stock may fluctuate significantly in response to a number of factors, some of which are beyond its control, including:

- o quarterly variations in operating results;
- o changes in financial estimates by securities analysts;
- o changes in market valuations of other similar companies;
- o announcements by Novastar or its competitors of new products or of significant technical innovations, contracts, receipt of (or failure to obtain) government funding or support, acquisitions, strategic partnerships or joint ventures;
- o additions or departures of key personnel;
- o 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;
- o future sales of common stock; and
- o 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 the Novastar stock price to fall regardless of its performance.

BECAUSE THE NOVASTAR SECURITIES TRADE ON THE OTC BULLETIN BOARD, THE ABILITY TO SELL SHARES IN THE SECONDARY MARKET MAY BE LIMITED.

The shares of Novastar common stock have been listed and principally quoted on the NASD OTC Bulletin Board. Because Novastar securities currently trade on the OTC Bulletin Board, they are 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 Novastar securities and otherwise affect the trading market in Novastar securities.

Because Novastar 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 Novastar common stock falls within the definition of penny stock, these regulations require the delivery, prior to any transaction involving Novastar 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 Novastar common stock and the ability of stockholders to sell Novastar common stock in the secondary market would be limited. As a result, the market liquidity for Novastar common stock would be severely and adversely affected.

A LARGE NUMBER OF SHARES WILL BE ELIGIBLE FOR FUTURE SALE AND MAY DEPRESS NOVASTAR’S STOCK PRICE.

Novastar shares that are eligible for future sale may have an adverse effect on the price of the Novastar stock. As of May 30, 2006, there were 154,508,776 shares of Novastar common stock outstanding. As of June 12, 2006, about 75 million shares of Novastar common stock were freely tradable without substantial restriction or the requirement of future registration under the Securities Act. The remainder of the Novastar outstanding shares, most of which are held by Novastar’s officers, directors and greater than 5% stockholders, may be sold without registration under the exemption from registration provided by Rule 144 under the Securities Act. In addition, as of March 31, 2006, an additional 10,992,498 shares were subject to outstanding options or warrants.

Sales of substantial amounts of common stock, or a perception that such sales could occur, and the existence of options or warrants to purchase shares of common stock at prices that may be below the then current market price of the common stock, could adversely affect the market price of the Novastar common stock and could impair Novastar’s ability to raise capital through the sale of its equity securities.

NOVASTAR WILL NOT HAVE CUMULATIVE VOTING AND A SMALL NUMBER OF EXISTING STOCKHOLDERS CONTROL NOVASTAR, WHICH COULD LIMIT YOUR ABILITY TO INFLUENCE THE OUTCOME OF STOCKHOLDER VOTES.

Novastar stockholders do not have the right to cumulative voting in the election of Novastar directors. Cumulative voting, in some cases, could allow a minority group to elect at least one director to the Novastar board. Because there is no provision for cumulative voting, a minority group will not be able to elect any directors. Accordingly, the holders of a majority of the shares of common stock will be able to elect all of the members of the Novastar board of directors.

Novastar executive officers and directors, together with a small number of large stockholders will hold a majority of Novastar's outstanding common stock. Similarly, Thorium Power officers and directors as a group together with a small number of large stockholders own a majority of Thorium Power's outstanding common stock. As a result, these entities and individuals will be able to control the outcome of stockholder votes, including votes concerning the election of directors, the adoption or amendment of provisions in the Novastar charter or bylaws and the approval of mergers and other significant corporate transactions.

WE DO NOT EXPECT TO DECLARE DIVIDENDS IN THE FORESEEABLE FUTURE.

Novastar has historically not declared or paid any dividends. Novastar does not expect that Novastar will pay dividends in the foreseeable future. Rather, Novastar plans to reinvest earnings in mining and nuclear fuel development.

RISK FACTORS RELATING TO THE MERGER

AVAILABILITY OF ADDITIONAL SHARES OF NOVASTAR COMMON STOCK RESULTING FROM THE MERGER COULD DEPRESS THE PRICE OF NOVASTAR COMMON STOCK.

As of May 30, 2006, Novastar had 154,508,776 shares outstanding, which includes 36,659,837 shares that were issued by Novastar in private placement transactions after the Merger Agreement was signed. In connection with the Merger, Novastar issued approximately 117,000,000 shares of its common stock. Therefore, immediately following the Merger there was approximately 272,000,000 shares outstanding. Novastar registered the shares issued in the Merger and is registering the shares issued in private placements under this registration statement. The Novastar stock issued in the Merger and to the private placement investors will be available for trading in the public market. The additional shares in the market may cause the price of Novastar common stock to decline. Also, if Novastar's stockholders sell substantial numbers of shares of Novastar common stock in the public market, including shares issued on the exercise of outstanding options and warrants, the market price of Novastar common stock could fall. These sales might also make it more difficult for Novastar to sell equity or equity related securities at a time and price that Novastar would deem appropriate. All of the shares of Novastar common stock issued to Thorium Power stockholders in the Merger will be freely tradable without restrictions or further registration under the Securities Act of 1933, as amended (the "Securities Act"), unless the shares of common stock are held by an "affiliate" of Novastar or Thorium Power prior to the Merger, as that term is defined under the Securities Act.

NOVASTAR AND THORIUM POWER AGREED TO ENTER INTO THE AGREEMENT AND PLAN OF MERGER PURSUANT TO CERTAIN ASSESSMENTS, WHICH ARE INEXACT AND UNCERTAIN.

Novastar and Thorium Power each entered into the Agreement and Plan of Merger based on an assessment of the other company's resource base, exploration potential, intellectual property rights, operating costs, potential markets for designs and products, potential environmental and other liabilities and other factors beyond the control of either Novastar or Thorium Power. These assessments are necessarily inexact and their accuracy inherently uncertain. Such a review may not have revealed all existing or potential problems, nor did it necessarily permit them to become sufficiently familiar with the properties of the other to fully assess their merits and deficiencies. The Merger could change the nature of the operations and business of both Thorium Power and Novastar due to the character of the properties owned by both companies. Therefore, the Merger may not be successfully implemented and may not

achieve desired objectives.

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THE INTEGRATION OF THE NOVASTAR AND THORIUM POWER BUSINESSES MAY BE COSTLY AND THE FAILURE OF MANAGEMENT TO SUCCESSFULLY EFFECT THE INTEGRATION MAY ADVERSELY AFFECT NOVASTAR'S BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Novastar's ability to realize some of the anticipated benefits of the Merger will depend in part on Novastar's ability to integrate Thorium Power's operations into Novastar's current operations in a timely and efficient manner. The integration process may require significant efforts from each company. The integration process may distract Novastar management's attention from the day-to-day business of the combined company. If Novastar is unable to successfully integrate the operations of the two companies or if this integration process is delayed or costs more than expected, Novastar's business, operating results and financial condition may be negatively impacted

**CAUTIONARY STATEMENT CONCERNING
FORWARD-LOOKING STATEMENTS**

This prospectus and other documents incorporated by reference into this prospectus contain or may contain "forward looking statements."

Any statements contained herein, including, without limitation, statements to the effect that Novastar or our management "believes," "expects," "anticipates," "plans," "may," "will," "projects," "continues," "estimates" or statements "potential" or "opportunity" or other variations thereof or comparable terminology or the negative thereof, that are not statements of historical fact should be considered forward-looking statements. Actual results could differ materially and adversely from those anticipated in the forward-looking statements as a result of several factors, including those set forth in "Risk Factors" beginning on page 7, which you should review carefully.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. Novastar does not undertake any obligation to publicly update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events, except as required by law.

USE OF PROCEEDS

The proceeds from the sale of the shares of our common stock being offered by the selling stockholders pursuant to this prospectus will belong to the selling stockholders. We will not receive proceeds from the sales by the selling stockholders but we will receive funds from the exercise of the warrants. We will utilize any proceeds from the exercise of such warrants for general corporate and working capital purposes. We will have complete discretion over how we may use the proceeds, if any, from any exercise of the warrants. We cannot assure purchasers that our use of the net proceeds will not vary substantially due to unforeseen factors. Pending use of the proceeds from any exercise of the warrants, we may invest all or a portion of such proceeds in marketable securities, equity securities of other companies, short-term, interest-bearing securities, U.S. Government securities, money market investments and short-term, interest-bearing deposits in banks.

MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Principal Market and Market Prices

Novastar 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 Novastar 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.

<u>FISCAL YEAR</u>	<u>QUARTER ENDING</u>	<u>HIGH</u>	<u>LOW</u>
2006	March 31, 2006	\$ 0.53	\$ 0.51
2005	December 31, 2005	\$ 0.31	\$ 0.13
	September 30, 2005	\$ 0.30	\$ 0.11
	June 30, 2005	\$ 0.22	\$ 0.077
	March 31, 2005	\$ 0.22	\$ 0.09
2004	December 31, 2004	\$ 0.29	\$ 0.07
	September 30, 2004	\$ 0.04	\$ 0.017
	June 30, 2004	\$ 0.09	\$ 0.025
	March 31, 2004	\$ 0.09	\$ 0.009

On February 13, 2006, the last full trading day before the announcement of the execution of the Merger Agreement, the closing per share sales price for the Novastar common stock was \$0.80 on the OTC Bulletin Board. On June 30, 2006, the most recent practicable date, the closing per share sales price for the Novastar common stock was \$0.45 on the OTC Bulletin Board.

Approximate Number of Holders of Our Common Stock

As of the effective date of the Merger, there were approximately 400 holders of record of Novastar common stock.

Dividend Policy

Novastar has never declared or paid cash dividends on its shares of common stock. Novastar anticipates that any earnings will be retained for development and expansion of its business and does not anticipate paying any cash dividends in the near future. Novastar's board of directors has sole discretion to pay cash dividends based on its financial condition, results of operation, capital requirements, contractual obligations and other relevant factors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Novastar's Management's Discussion and Analysis

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

Overview

Novastar has engaged in the acquisition, exploration and evaluation of mineral rights in properties containing thorium. All commercially viable thorium metal is extracted from monazite. The phosphate mineral monazite exists in sands and may contain concentrations of 3.0% -12.0% thorium oxide as well as other rare earth minerals such as cerium, lanthanum, yttrium and neodymium, and platinum group metals ("platinum group metals").

In the future, Novastar may acquire rights to properties that contain monazite deposits. Properties of interest to Novastar would be both monazite stockpiles and in ground concentrations of mineral monazite.

The current market for thorium is very limited. Novastar's objective has been to become a supplier of thorium to be used in the future as fuel in the nuclear energy industry. Thorium can be used to power existing nuclear reactors using designs developed by Thorium Power. Thorium based nuclear fuels are believed to have several important advantages over conventional nuclear fuels, such as non-proliferation benefits, environmental benefits and possible cost and safety benefits.

Novastar expects to generate revenues in the future through the sale of thorium, platinum group metals and other rare earth minerals, but we have not done so to date.

Outlook

As of the date of this prospectus, there is not any significant global demand for thorium as a source of nuclear fuel. Novastar believes that there will be significant increases in demand for thorium at some future point; however, Novastar is unable to predict when or if this will occur.

The International Atomic Energy Agency (IAEA), a United Nations organization, submitted an official report on the thorium nuclear fuel cycle in May of 2005. On July 6, 2005 Novastar issued a press release commenting on this report. The IAEA report publicly promotes the significant benefits of thorium as a nuclear fuel. In addition, on page # 91 of its report, the IAEA recommended that companies augment the exploration and mining of thorium to insure the availability of sufficient supplies of reactor grade thorium.

To date, Novastar has invested approximately \$1,350,000 in Thorium Power and upon consummation of the merger, Novastar will acquire Thorium Power and it will become Novastar's wholly-owned subsidiary.

Seth Grae, the CEO of Thorium Power, became Novastar's CEO on March 17, 2006 pursuant to the terms of the Merger Agreement. He and Thomas Graham, Jr., a board member of Thorium Power, also became members of Novastar's board of directors on April 2, 2006. Cornelius Milmoie became a director of Novastar on April 2, 2006 and its COO on April 4, 2006.

Novastar has worked with the government relations firm Capitol Project Partners, LLC to inform government officials on the value of thorium and a thorium nuclear fuel cycle.

In addition to the acquisition of thorium properties and mineral rights, Management believes Novastar may have potential revenue opportunities to supplement its business since other metals of commercial significance can be extracted from Novastar's properties. These would include platinum group metals and rare earth minerals of the yttrium group. Rare earth minerals can be divided into two groups: the yttrium group, containing yttrium, lanthanum, cerium, neodymium, and the dysprosium group, containing europium, gadolinium, terbium, dysprosium, holmium, and erbium. Mineral monazite only contains concentrations of rare earth minerals classified in the yttrium group.

Management believes that Novastar's properties may also contain zirconium oxide. Zirconium metal is used as an alloy to coat metal parts to provide heat and corrosion resistance. It is widely used in nuclear reactors and management believes that there may be a growing use in the automotive industry to replace chrome. Management believes that platinum may also be present on Novastar's properties. Platinum may be used to coat machinery parts to impart wear resistance and to electronic components to enhance electrical conductivity. Platinum is also widely used in the automotive industry for catalytic converters and in the jewelry industry.

Novastar Resources may process and stockpile rare earth minerals as a by-product of mining and refining mineral monazite into thorium oxide. Novastar intends to identify potential buyers of rare earth minerals both in the United States and abroad. With approximately 80% of world rare earth metals production sourced from the Peoples' Republic of China and no rare earth mineral mines operating in North America, rare earth minerals may become an important strategic commodity. Novastar believes that there may be short and intermediate term revenue generating opportunities from sales of rare earth minerals. Some of the commercial applications for rare earth minerals include, but are not limited to:

- o industrial super alloys used in the aerospace and nuclear industries
 - o crystals manufactured for the production of lasers
 - o the refining of petroleum products
 - o in magnetic refrigeration technology
 - o as catalysts used in the manufacture of fuel-cells

- o in cellular phones and other wireless equipment
- o magnetic plastic technology used in computer data memory devices
 - o fiber-optic lines and to color, polarize and polish glass
 - o the creation of high temperature superconductors
 - o catalytic converters for the automotive industry

Results of Operations - Fiscal Year Ended June 30, 2005 and 2004

Summary

The following table summarizes the results of Novastar's operations during the fiscal year ended June 30, 2005 and 2004 and provides information regarding the dollar and percentage increase or (decrease) from the 2005 fiscal year to the 2004 fiscal year.

Line Item	6/30/05	6/30/04	Increase (Decrease)	Percentage Increase (Decrease)
Revenues	\$ 0.00	\$ 0.00	\$ 0.00	0%
Operating Expenses	\$ 2,248,703	\$ 39,574	\$ 2,209,129	5582%
Interest Expense	\$ 442,813	\$ 55,856	\$ 386,957	693%
Net Loss	\$ 2,691,516	\$ 95,430	\$ 2,596,086	2720%
Loss per common share	\$ (0.05)	\$ 0.00	\$ 0.05	--

Novastar's consolidated net loss for the fiscal year ended June 30, 2005 was \$2,691,516 or \$.05 per share compared to the previous year's consolidated net loss of \$95,430 or \$0.00 per share for a net loss increase of \$2,596,086. The largest new expense was related to consulting services, totaling \$2,303,533 for the year ended June 30, 2005, performed by consultants whose services included research into prospective business venues, seeking out business opportunities, making introductions and other business consulting. This increase in consulting expense was \$2,279,898, which accounted for approximately 88% of the increase in Novastar's net loss for the year ended June 30, 2005.

Corporate administration and public relations

Corporate administrative and public relations costs totaled \$84,828 in the 2005 fiscal year compared to \$3,996 in the previous year, representing an increase of \$80,832. Included in these costs are the costs of a public relations program started in the year and business development costs in association with seeking mineral interest opportunities and promoting the use of Thorium based nuclear fuels. Also included are travel expenses for executives and geologists, travel to various conferences and other miscellaneous office expenses.

Legal and accounting costs

Legal and accounting costs totaled \$30,160 in the 2005 fiscal year compared to \$11,943 in the previous year, representing an increase of \$18,217 or 152%. This increase reflects primarily the company's business activity in the current year in lead up to the property acquisitions, pre-merger activities and financing achieved subsequent to fiscal year-end.

Cash Flows - Fiscal Year Ended June 30, 2005 and 2004

Cash provided by Operations

Cash provided by operations was \$7,079 in the 2005 fiscal year compared to cash used of \$10,294 in the previous year. The increase of \$17,373 can be attributed to an increase in Novastar's expenses.

During the 2005 fiscal year \$2,239,533 of consulting services were provided to Novastar for which Novastar paid in common shares in lieu of cash. A further \$1,000,000 of consulting services were provided for debt which converted to common shares and common stock purchase warrants. This compares to \$22,500 of services in the prior fiscal year paid for by the issuance of shares in lieu of cash.

Including the effect of \$169,818 in debt forgiven, accounts payable and accrued liabilities increased by \$71,135 as compared to \$7,265 in the prior year.

The above-noted increases and increases in other costs arise from increased business activity as Novastar embarked on its new business model of acquiring, exploring and developing thorium and rare earth mineral properties and rights thereto, and its alliance and merger negotiations with Thorium Power.

During the 2005 fiscal year interest attributable to the beneficial conversion of notes payable totaled \$442,813 as compared to \$55,178 in the prior year. This increase is attributable to the conversion of notes payable in the current year to shares and warrants.

Financing Activities

Novastar received from its noteholders cash from financing activities of \$7,881 in its fiscal year ended June 30, 2005, compared to \$9,400 in the previous year.

In addition Novastar received proceeds of \$94,140 in the 2005 fiscal year through a private placement which was to close subsequent to year-end; this placement was terminated after year-end and the proceeds returned to the subscribers.

Results of Operations - Nine Months Ended March 31, 2006 and 2005

Summary

The following table summarizes the results of Novastar's operations during the nine month period ended March 31, 2006 and 2005 and provides information regarding the dollar and percentage increase or (decrease) from the 2006 period to the 2005 period.

Line Item	3/31/06	3/31/05	Increase (Decrease)	Percentage Increase (Decrease)
Revenues	\$ 0.00	\$ 0.00	\$ 0.00	0%
Operating Expenses	\$ 10,899,554	\$ 913,574	\$ 9,985,980	1090%
Interest Expense	--	\$ 442,813	\$ (442,813)	(100)%
Net Loss	\$ 10,899,554	\$ 1,356,387	\$ 9,543,167	700%
Loss per common share	\$ (0.11)	\$ (0.03)	\$ 0.08	270%

Novastar's consolidated net loss for the nine month period ended March 31, 2006 was \$10,899,554 or \$0.11 per share compared to the same period of the previous year consolidated net loss of \$1,356,387 or \$0.03 per share for a net loss increase of \$9,543,167. The largest expense was related to stock-based compensation expenses of \$4,150,000 to Novastar's new director and CEO issued in accordance to an employment agreement Novastar entered into in February 2006. Novastar also issued stock for consulting services performed by consultants whose services included research into prospective business venues, seeking out business opportunities, making introductions and other business consulting. Total consulting and stock-based compensation issued to officers, consultants and others totaled approximately \$8,400,000, or approximately 77% of Novastar's total net loss for the nine month period ended March 31, 2006.

Mineral production and revenue

As Novastar is in the exploration stage regarding its mineral interests (leases located in Alabama, acquired on September 14 and December 31 2005, from entities controlled by former CEO Charles Merchant, and claims located in North Queensland, Australia, acquired on September 30, 2005), Novastar has not, as of yet, produced any minerals revenues nor produced any minerals.

Exploration, property evaluation and holding costs

As of its fiscal year-end, Novastar held no mineral interests. It subsequently acquired three mineral leases. A mineral lease in Clay County, Alabama was assigned to Novastar on September 14, 2005. The agreement is more completely described in the section captioned "PROPERTIES."

On December 31, 2005, Novastar acquired a 51% interest in mineral leases in Clay and Cleburne Counties in Alabama. The assignment agreement is more completely described in the section captioned "PROPERTIES."

On September 30, 2005, Novastar acquired certain North Queensland, Australia mineral interests. The acquisition agreement is more completely described in the section captioned "PROPERTIES."

Corporate administration and public relations

Corporate administrative and public relations costs totaled \$202,779 during the nine month period ended March 31, 2006 compared to \$80,526 in the same period of the previous year, representing an increase of \$122,253. Included in these costs are the costs of a public relations program started in the year and business development costs in association with seeking mineral interest opportunities and promoting the use of thorium based nuclear fuels. Also included are travel expenses for executives and scientists, travel to various conferences and other miscellaneous office expenses.

Legal and accounting costs

Legal and accounting costs totaled \$323,889 during the nine month period ended March 31, 2006 compared to none in the previous year, representing an increase of \$323,889. This increase reflects primarily legal fees incurred in connection with the entry into the Merger Agreement with Thorium Power and related transactions, the company's business activity in the current year in lead up to the property acquisitions and financing achieved during the nine month period ended March 31, 2006.

Cash Flows - Nine Months Ended March 31, 2006 and 2005

Cash provided by Operations

Cash used by operations was \$622,572 during the nine month period ended March 31, 2006 as compared to cash used of \$107,881 in the same period of the previous year.

The change can be attributed to an increase in Novastar's period end accounts payable and accrued liabilities and other payables of \$504,025. This increase was offset by a decrease in prepaid expenses at period end of \$258,444.

The above-noted increases and increases in other costs (namely, public relations and legal) arise from increased business activity as Novastar embarked on its new business model of acquiring, exploring and developing thorium, platinum group metals and rare earth mineral properties and rights thereto. Additional costs were incurred in connection with the entry by Novastar into the Merger Agreement with Thorium Power and the actions taken in connection with the Merger Agreement.

Investing Activities

Cash used by investing activities increased \$758,200 during the nine month period ended March 31, 2006. This increase was due primarily to an investment of \$700,000 Novastar made to purchase 175,000 shares of Thorium Power at \$4 per share. The remaining \$58,200 was spent on exploration equipment.

Financing Activities

Novastar received cash from financing activities of \$1,446,486 during the nine month period ended March 31, 2006, compared to \$107,881 in the same period of the previous year.

In addition Novastar received proceeds of \$631,500 in the nine month period ended March 31, 2006 through a private placement. The placement was an offering of 4,209,998 units at a price of \$0.15 per unit. Each unit consists of one common share and one-half of a non-transferable share purchase warrant. Each warrant entitles the holder thereof to acquire one additional share of common stock at a price of \$0.30 per share and has an expiry date of twelve months from the closing date of the subscription.

The company also received \$1,262,500 through another private placement, offering 4,208,331 units at \$0.30 per unit. There are also warrants that were issued that entitle the holder to purchase one additional share of stock at a price of \$0.50 per share.

On February 20, 2006, Novastar repurchased 5,000,000 shares of its common stock from Walter Doyle, the prior owner of Novastar's North Queensland, Australia property, for \$400,000 or \$0.08 per share.

Liquidity and Capital Resources

At March 31, 2006, Novastar's total assets were \$1,080,250. Liabilities as of March 31, 2006 totaled \$691,505. Novastar had working capital deficiency of \$366,545 at March 31, 2006.

Novastar recently closed a \$15,000,000 private placement, for the purpose of acquiring, exploring and developing thorium and rare earth minerals properties as well as assist Novastar in connection with the planned acquisition of Thorium Power and the development of Thorium Power's business.

Major cash commitments in the next fiscal year are related to the funding of Thorium Power's business, corporate administration and operations, and proposed exploration activities.

Off Balance Sheet Arrangements

Novastar does not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on Novastar's 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 Novastar's securities.

Seasonality

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

Inflation

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

Critical Accounting Policies

The Securities and Exchange Commission 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 Securities and Exchange Commission 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, Novastar has identified the following significant policies as critical to the understanding of its financial statements.

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

Novastar's 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 Novastar believes that its 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 Novastar's results of operation and/or financial condition. Novastar has identified certain accounting policies that it believes are most important to the portrayal of its current financial condition and results of operations. Novastar's significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included in its Annual Report on Form 10-KSB.

Mineral Property Exploration and Acquisition Costs

Costs of acquiring property concessions and exploration costs will be capitalized by project area when a production decision is made in respect to the project and Novastar is reasonably assured that it will receive regulatory approval to permit mining operations. Costs to maintain the property concessions and leases are expensed as incurred. When a property concession reaches the production stage, the related capitalized costs will be amortized, using the units of production method on the basis of periodic estimates of ore reserves. To date no property concessions have reached production stage.

Property concessions will be periodically assessed for impairment of value and any diminution in value is charged to operations at the time of impairment. Should a property concession be abandoned, its capitalized costs will be charged to operations. Novastar charges to operations the allocable portion of capitalized costs attributable to property concessions sold. Capitalized costs will be allocated to property concessions abandoned or sold based on the proportion of claims abandoned or sold to the claims remaining within the project area.

Deferred tax assets and liabilities

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

Property and equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line or accelerated methods over the estimated useful lives of the assets. The useful lives of property, plant and equipment for purposes of computing depreciation are five to seven years for equipment, and 39 years for buildings.

Novastar evaluates the recoverability of property and equipment when events and circumstances indicate that such assets might be impaired. Novastar determines impairment by comparing the undiscounted future cash flows estimated to be generated by these assets to their respective carrying amounts. Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The cost and related reserves of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in results of operations.

Accounting for Stock Based Compensation, Stock Options and Warrants Granted to Employees and Nonemployees

Novastar currently reports stock issued to employees under the rules of SFAS No. 123R.

The options were valued using the Black-Scholes option pricing model. The assumptions used were as follows: volatility of 284%, a risk-free interest rate of 4.33% and an exercise term of ten years.

Environmental Matters

When it is probable that costs associated with environmental remediation obligations will be incurred and they are reasonably estimable, Novastar will accrue such costs at the most likely estimate. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study for such facility and are charged to provisions for closed operations and environmental matters. Novastar periodically reviews its accrued liabilities for such remediation costs as evidence becomes available indicating that its remediation liability has potentially changed. Costs of future expenditures for environmental remediation are not discounted to their present value unless subject to a contractually obligated fixed payment schedule. Such costs are based on Novastar's current estimate of amounts that are expected to be incurred when the remediation work is performed within current laws and regulations. Recoveries of environmental remediation costs from other parties will be recorded as assets when their receipt is deemed probable.

Future remediation costs for inactive mines will be accrued based on management's best estimate at the end of each period of the undiscounted costs expected to be incurred. Such costs estimates include, where applicable, ongoing care, maintenance and monitoring costs. Changes in estimates are reflected in earnings in the period an estimate is revised.

Accounting for reclamation and remediation obligations requires management to make estimates unique to each mining operation of the future costs Novastar will incur to complete the reclamation and remediation work required to comply with existing laws and regulations. Actual costs incurred in future periods could differ from amounts estimated. Additionally, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required. Any such increases in future costs could materially impact the amounts charged to earnings. At March 31, 2005 and the years ended June 30, 2005 and 2004, Novastar has no accrual for reclamation and remediation obligations because management cannot make a reasonable estimate. Any reclamation or remediation costs related to abandoned concessions has been previously expensed.

Thorium Power's Management's Discussion and Analysis

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

Overview

Radkowsky Thorium Power Corp., incorporated in the state of Delaware on January 8, 1992, changed its name to Thorium Power, Inc. in April 2001. Thorium Power is engaged in the development of nuclear fuel designs into three markets: (1) weapons-grade plutonium disposition, (2) reactor-grade plutonium disposition, and (3) nuclear fuel for commercial nuclear fuel designs. These fuel designs are for use in existing light water reactors. Presently, Thorium Power is focusing most of its efforts primarily on demonstrating and testing its thorium/weapons-grade plutonium disposing fuel designs for the Russian VVER reactors.

Thorium Power's future customers may include nuclear fuel fabricators and/or nuclear power plants, and/or U.S. or foreign governments.

Operations to date have been devoted primarily to filing for patents, developing strategic relationships within the industry, securing political and financial support from the United States and Russian governments, continued development of the fuel designs and administrative functions. Thorium Power, therefore, prepares its financial statements as a Development Stage Company.

Material Opportunities and Challenges

A major opportunity for Thorium Power is the possibility that its fuel designs may be used in many existing light water reactors in the future. Thorium Power is developing nuclear fuel designs for use in Russian VVER-1000 light water reactors. Management believes that these designs can later be used in Western reactors. Light water reactors are the dominant reactor types in the world and fuels for such reactors constitute the majority of the commercial market for nuclear fuel. Thorium Power's focus is on three different types or variants of thorium fuel designs. The first is a thorium fuel designed to dispose of weapons-grade plutonium that is stockpiled in Russia. 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. and Japan. The third is a fuel designed not to dispose of plutonium, but rather to provide reactor owner-operators with an economically alternative fuel that will not generate spent fuel containing weapons-usable plutonium. All three of these fuel variants are also expected to have additional benefits, including reduced volume and long-term radio-toxicity of spent fuel for the same amount of electricity generated as compared with uranium fuels that are currently used in light water reactors.

Management believes its greatest challenge is that nuclear power plant operators are hesitant to be the first to use a new type of nuclear fuel. For this reason, it is important to Thorium Power that the United States and Russian governments cooperate with each other and with Thorium Power in using Thorium Power's fuel design to dispose of weapons-grade plutonium in Russia. Management believes that use of this fuel can help the governments meet their policy goal of eliminating this plutonium, so the plutonium can never be stolen and used by others to make nuclear weapons. If the United States and Russian governments cooperate and this fuel is used, then management believes that it will be less difficult for Thorium Power to introduce its reactor-grade plutonium disposing fuel design to governments and companies that operate nuclear power plants. If, on the other hand, Thorium Power's weapons-grade plutonium disposing fuel is not used in Russia, it will be more difficult to have the reactor-grade plutonium disposing fuel used. If the reactor-grade plutonium disposing fuel is used, management believes that it will be less difficult to

interest reactor operators and governments to use Thorium Power's commercial fuel design. Management believes that it will be less difficult because the three fuel variants are quite similar, so demonstrating any one of them in a nuclear power plant could help show that the other designs can also be used in commercial nuclear power plants.

Thorium Power is focusing on the fuel variant to dispose of weapons-grade plutonium in Russia because it can help the United States and Russian government meet their national security goal of disposing of this plutonium. For this reason, management believes that it will be less difficult to have this fuel used first, before the other fuel variants are demonstrated.

Thorium Power has been developing relations with the United States and Russian governments for over ten years. Thorium Power, in cooperation with these governments, has been demonstrating its fuel concepts in a research reactor in Russia for over three years. Thorium Power has helped cause independent analyses of the technology to be performed, including a May 2005 report by the International Atomic Energy Agency and a Spring 2005 report by Westinghouse Electric Company, and these analyses are positive and management believes can help lead to deployment of these nuclear fuels.

Thorium Power also is working with Russian scientific institutes to have all three of the fuel variants demonstrated simultaneously in a Russian VVER-1000 reactor as soon as three years from now if adequate support and funding levels are provided by the United States government and the Russian government provides necessary support. Management believes that it will be necessary to have a working relationship with a major nuclear fuel fabricator and vendor to have its fuel designs widely deployed in global markets.

Thorium Power's nuclear fuel designs have never been demonstrated in a full size commercial reactor powering a city. The plans for demonstrating the fuels in a VVER-1000 reactor in Russia would provide that operating experience that is important to reactor owners and regulatory authorities. If the project is adequately funded by a public-private partnership, the fuels can be demonstrated in the VVER-1000 reactor, which can help convince other light water reactor operators around the world to accept thorium fuel designs.

Thorium Power has been building relationships with companies and organizations in the nuclear power industry for several years. These companies and organizations can work in a consortium with Thorium Power as government contractors to dispose of weapons-grade plutonium. If Thorium Power is unable to obtain contracts to dispose of plutonium from weapons or spent fuel, or make arrangements with companies in the nuclear power industry to seek these contracts, it will be more difficult to have the fuel designs deployed beyond the VVER-1000 market. The companies that Thorium Power is discussing these matters with can have opportunities to sell into the commercial nuclear power industry nuclear fuel branded with their name. Thorium Power would need to enter into an agreement with one or more of these companies. Without such an arrangement with a nuclear fuel fabricator, it would be more difficult for Thorium Power's fuels to be sold. In addition to the reputations, guarantees, service, and other benefits that these companies provide when selling fuel to nuclear power plant operators, they also often have multi-year fuel supply contracts with the reactor operators, so it can be almost impossible to penetrate some markets for nuclear fuel without working with a nuclear fuel supplier that can support long term contracts. If Thorium Power is successful in demonstrating the nuclear fuel designs in Russia and in continuing to build relationships with nuclear fuel fabricators, management believes it may lead to competition among these major companies in the nuclear power industry to work with Thorium Power in producing and selling the nuclear fuels to governments and commercial reactor operators.

Results of Operations - Fiscal Year Ended December 31, 20