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

As filed with the Commission on October 3, 2006

Registration No. 333-135437

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM SB-2/A
REGISTRATION STATEMENT UNDER

THE SECURITIES ACT OF 1933

Amendment No. 4

NOVASTAR RESOURCES LTD.

(Name of small business issuer in its charter)

Nevada	**1000**	**91-1975651**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

Seth Grae
8300 Greensboro Drive, Suite 800
McLean, VA 22102
(703) 918-4904

(Address and telephone number of principal executive offices)

Copies to:

Louis A. Bevilacqua, Esq.
Joseph R. Tiano, Jr., Esq.
Thelen Reid & Priest LLP
701 8th Street, N.W.
Washington, D.C. 20001
(202) 508-4000

(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. þ

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

Title of each class of securities to be registered	*Amount to be registered (1)*	*Proposed maximum offering price per share (2)*	*Proposed maximum aggregate offering price (2)*	*Amount of registration fee*
Common stock, $0.001 par value (3)	99,285,436	$ 0.45	$ 44,678,446.20	$ 4,780.59
Shares of Common Stock underlying Common Stock Purchase Warrants	24,846,169	$ 0.45	$ 11,180,776.05	$ 1,196.34
Total	124,131,605	$ 0.45	$ 55,859,222.25	$ 5,976.93(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. Also, to cover the possibility that certain securities may be issued pursuant to liquidated damages provisions contained in a registration rights agreement pursuant to a private placement consummated by the Company on May 4, 2006, the Registrant is registering hereunder an additional 4,399,180 shares of common stock, and an additional 2,199,590 shares of common stock underlying common stock purchase warrants, the maximum number of securities that could be due pursuant to any such claim for liquidated damages.
(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 120,247,176 to 124,131,605. $4,168.67 was previously paid for the registration fee in connection with the filing of the initial registration statement on June 29, 2006. $1,287.98 was previously paid for the registration fee in connection with the filing of Amendment No. 1 to

the initial registration statement on July 3,2006. $15.53 was previously paid for the registration fee in connection with the filing of Amendment No.2 to the initial registration statement on August 9, 2006 and 317.73 was previously paid for the registration fee in connection with the filing of Amendment No. 3 to the initial registration statement on October 2, 2006. The Company currently has a credit on file with the Securities and Exchange Commission, a portion of which should be used to cover the additional $187.02 required for this Amendment No. 4 to the initial registration statement.

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.

124,131,605 Shares of Common Stock

This prospectus relates to an aggregate of up to 124,131,605 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. (ii) 49,808,090 shares of our common stock and 107,500 shares of common stock underlying common stock purchase warrants 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 and (iii) 4,399,180 shares of common stock and 2,199,590 shares of common stock underlying common stock purchase warrants, the maximum number of securities that could be due pursuant to the liquidated damages provisions of a registration rights agreement entered into pursuant to the May 4, 2006 private placement. Of such shares, (i) 94,886,253 are outstanding upon the effective date of the registration statement to which this prospectus relates, and (ii) up to 22,646,579 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 September 26, 2006 was $0.44 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.

TABLE OF CONTENTS

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, thereafter amended on August 9, 2006, 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"). Subsequent to the Securities and Exchange Commission declaring the S-4 Registration Statement effective on August 14, 2006, we filed Post-Effective Amendment No. 1 on October 2, 2006. The Merger will not be completed until, among other things, the S-4 Registration Statement, including any post-effectiveamendment, is declared effective by the Securities and Exchange Commission.

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 June 30, 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 reference 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" 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 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, including any post-effective amendment, 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. Additionally, we are also registering 4,399,180 shares of common stock and 2,199,590 shares of common stock underlying common stock purchase warrants, representing the maximum number of securities that may be issued pursuant to the liquidated damages provisions of the registration rights agreement entered into in conjunction with the May 4, 2006 private placement.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 "NVAS.OB".

The Offering

Common stock offered by selling stockholders	124,131,605 shares
Common stock outstanding before the offering	296,114,497 shares (1)
Common stock outstanding after the offering	296,114,497 shares
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 24,486,169 shares of common stock registered for resale under this prospectus, we would receive approximately $13,649,627 in the aggregate from such exercises. We intend to use such proceeds for working capital, and other general corporate purposes.

(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:

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

- Fuel fabrication: 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.

- Fuel design: Novastar’s “seed-and-blanket” fuel assembly design has a detachable central part which is not in conventional fuel designs.

- 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.

- 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.

- 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.

    - 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:

- use of thorium instead of only uranium,

- higher uranium enrichment level,

- seed-and blanket fuel assembly design integrating thorium and uranium,

- high burn-up levels of uranium,

- use of metallic seed rods,

- longer residence time of the blanket in the reactor, and

- 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 utilizes 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:

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

- market prices for the minerals to be produced;
- environmental compliance regulations and restraints; and
- 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:

- quarterly variations in operating results;
- changes in financial estimates by securities analysts;
- changes in market valuations of other similar companies;
- 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;
- additions or departures of key personnel;
- any deviations in net sales or in losses from levels expected by securities analysts or any reduction in political support from levels expected by securities analysts;
- future sales of common stock; and
- results of analyses of mining and resources assets.

In addition, the stock market has recently experienced extreme volatility that has often been unrelated to the performance of particular companies. These market fluctuations may cause 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 effect 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 September 20, 2006, there were 160,476,474 shares of Novastar common stock outstanding. Novastar will be issuing 135,638,023 shares of its common stock to Thorium Power security-holders upon the merger which were registered under a Registration Statement on Form S-4. Novastar is also registering an additional 99,285,436 shares pursuant to this Registration Statement on Form SB-2. These shares, in combination with the current freely-tradable shares of the company, may dilute Novastar's stock price. 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, 24,846,169 shares were subject to outstanding stock purchase warrants being registered pursuant to this Registration Statement on Form SB-2.

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 September 20, 2006, Novastar had 160,476,474 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 135.6 million shares of its common stock. Therefore, immediately following the Merger there were approximately 296,000,000 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.

17

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.

FISCAL YEAR	QUARTER ENDING	HIGH	LOW
2006	June 30, 2006	$ 0.74	$ 0.43
	March 31, 2006	$ 0.88	$ 0.19
	December 31, 2005	$ 0.28	$ 0.14
	September 30, 2005	$ 0.29	$ 0.13
2005	June 30, 2005	$ 0.22	$ 0.077
	March 31, 2005	$ 0.22	$ 0.09
	December 31, 2004	$ 0.29	$ 0.07
	September 30, 2004	$ 0.04	$ 0.017

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 September 26, 2006, the most recent practicable date, the closing per share sales price for the Novastar common stock was $0.44 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. We have not conducted any mining activities on any of the properties that we hold mineral leases and claims for.

On February 14, 2006, we and our newly-formed wholly-owned subsidiary, TP Acquisition Corp., and Thorium Power, Inc. entered into a merger agreement, which was amended on June 12, 2006 and again on August 8, 2006. Under the terms of the merger agreement TP Acquisition will merge with and into Thorium Power, with Thorium Power, the surviving corporation, becoming a wholly owned subsidiary of Novastar. We expect the merger to close in October 2006.

Upon the consummation of the Merger with Thorium Power, we now have two different lines of business or business segments. Our primary business segment is research and development of proprietary nuclear fuel technology for use in nuclear power plants. This primary business segment is Thorium Power's business. Our second business segment is mineral exploration as described above and in more detail below.

Since this discussion of our business segments is for periods prior to closing of the Merger with Thorium Power, it does not reflect the Nuclear Fuel Design Business. See Thorium Power's Management's Discussion and Analysis for discussion of the Nuclear Fuel Design Business.

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 $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 Milmoe 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:

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

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

Preliminary sample assays for platinum group metals have been taken at the Cleburne County, Alabama property, though the results are inconclusive. Novastar has not taken any core samples from the properties located in Australia. No further mineral property descriptions are available for public dissemination at this time.

Plan of Operation

At June 30, 2006, Novastar's total assets were $16,589,832. Liabilities as of June 30, 2006 totaled $5,273,588. Novastar had working capital surplus of $9,966,244 at June 30, 2006.

On May 4, 2006, Novastar closed a $15,000,000 private placement (raised $15,580,431) for the purpose of acquiring, exploring and developing thorium and rare earth minerals properties as well as to assist in connection with the planned acquisition of Thorium Power and the development of Thorium Power's business.

While Novastar's management expects these proceeds and our present working capital at June 30, 2006 will meet our foreseeable needs for at least 12 month period thereafter, it may need to raise additional capital by way of an offering of equity securities, an offering of debt securities, or by obtaining financing through a bank or other entity. If Novastar needs to obtain additional financing, that financing may not be available or we may not be able to obtain that financing on terms acceptable to the Company. If additional funds are raised through the issuance of equity securities, there may be a significant dilution in the value of Novastar's outstanding common stock.

In the next 12-24 months Novastar expects to incur Research and Development expenses related to Thorium Power Inc,'s development of its patents for its proprietary nuclear fuel design.

Results of Operations - Fiscal Year Ended June 30, 2006 and 2005

Summary

The following table summarizes the results of Novastar's operations during the fiscal year ended June 30, 2006 and 2005 and provides information regarding the dollar and percentage increase or (decrease) from the 2006 fiscal year to the 2005 fiscal year.

Line Item	6/30/06	6/30/05	Increase (Decrease)	Percentage Increase (Decrease)
Revenues	$ 0.00	$ 0.00	$ 0.00	0%
Operating expenses	$ 13,147,485	$ 2,691,516	$ 10,455,969	388%
Other income (expense) - net	$ (197,050)	$ 0	$ 197,050	--%
Net loss	$ 13,344,535	$ 2,691,516	$ 10,653,019	396%
Loss per common share	$ (0.12)	$ 0.05	$ 0.07	140%

Revenues

Novastar did not generate any revenue during the fiscal year ended June 30, 2006 and it does not anticipate generating any revenue in the next 12 months from its present business segment or from the new business segment that it will aquire when it closes the merger with Thorium Power.

Operating Expenses

Cash used for operation expenses totaled approximately $1,246,314, with the remaining amount attributable to expenses paid for by equity issuances.

Operating expenses increased $10,455,969 due primarily to:

· Payroll expenses and related fringe benefits increased $116,436 due to the hiring of additional key management and staff. Novastar increased its payroll and related fringe benefits costs in its first fiscal quarter ended September 30, 2006, as it has hired an additional 6 employees.

· Professional fees expense increased approximately $672,000 due primarily to legal fees incurred in connection with the upcoming merger with Thorium Power, Inc. and financing activities. Novastar anticipates that its legal fees will decrease once it is able to complete the merger with Thorium Power, Inc., unless it engages in other financing or acquisition activities.

· Travel, business development, and public relations expense increased $93,385. Novastar anticipates that its travel, business development and public relations expense will increase as it continues to promote its business and seek other opportunities in the Nuclear Industry.

· Consulting expense increased $3,466,600, which included costs associated with finance, geological work, government advocacy work, technical advisory board, and international advisory board.

.

Stock Based Compensation was $4,949,729, which included stock and stock option grants to Novastar executive officers and advisory board members. Novastar implementation of SFAS No. 123R (a modification to the existing standard - SFAS No. 123) in 2006 (see notes to the financial statements), changed the way it accounts for Stock-Based Compensation in 2006, and required Novastar to record expenses for equity instruments for which it would not have been required to report under SFAS No. 123.

- Novastar incurred a net impairment loss of $670,544 on the mineral property acquisition costs, as it wrote off the entire amounts expended to acquire the rights to mine properties in Alabama and Australia. This impairment was based on management's assesment of future projected undiscounted and discounted cash flows from the properties.

- Mineral exploration costs increased $394,516 due to Novastar’s exploration activities in its mining operations.

- Director and officer liability insurance expense increased $91,506 due to liability insurance related to the merger agreement

Other income (expense)

Changes in Fair Value of Warrants:

· Novastar recorded a warrant liability in the amount of $3,678,278 for the fair value of warrants accruing under a Registration Rights Agreement entered into on May 4, 2006 (see Item 7 of Part II, "Financial Statements—Note 9(ii) —Share Capital"). The change in the fair value of the warrants, from May 4, 2006 to June 30, 2006 was a loss recorded of $139,220.

Interest and Dividend income increased $80,571 for the year ended June 30, 2006. This increase is due to the increase in Novastar's cash balances, due to the 3 private placements that it completed during its fiscal year.

Legal Settlement expense increased $146,455 due the settlement of one lawsuit.

Research and Development Activities

In the next 12-24 months Novastar expects to incur Research and Development expenses related to Thorium Power Inc.'s development of its patents for its proprietary nuclear fuel design.

Cash Flows - Fiscal Year Ended June 30, 2006 and 2005

Cash Flows

Novastar used $1,246,314 in cash from its operating activities during the year ended June 30, 2006 as compared to $7,079 used in the prior year. The difference of $1,239,235 which is attributable to the following factors:

· Increased overhead expenses attributable to the addition of key management and staff.

· Payroll expenses and related fringe benefits increased $116,436 due to the hiring of additional key management and staff. Novastar increased its payroll and related fringe benefits costs in its first fiscal quarter ended September 30, 2006, as it has hired an additional 6 employees.

· Professional fees expense increased $672,000 due primarily to legal fees incurred in connection with the upcoming merger with Thorium Power, Inc. and financing activities. Novastar anticipates that its legal fees will decrease once its is able to complete the merger with Thorium Power, Inc., unless it engages in other financing or acquisition activities.

· Travel, business development, and public relations expense increased $93,385. Novastar anticipates that its travel, business development and public relations expense will increase as it continues to promote its business and seek other opportunities in the Nuclear Industry.

· Other general and administrative expenses increased $358,000, which consisted primarily of insurance expense, other office expenses, which were offset by a payable due to Thorium Power Inc.

Novastar used $1,350,000 in cash from its investing activities during the year ended June 30, 2006 as compared to $0 used in the prior year. This increase is due to Novastar's investment in Thorium Power, Inc.

Novastar received $17,026,919 from financing activities during the year ended June 30, 2006 as compared to $7,881 during the prior year. This increase is due primarily to an increase in sales of its securities through private placements.

For further information on the cumulative cash flows from June 28, 1999 (Inception) to June 30, 2006, please refer to Item 7 of Part II, “Financial Statements, Consolidated Statements of Cash Flows”. of our Annual Report on Form 10-KSB filed September 27, 2006

Liquidity and Capital Resources

At June 30, 2006, Novastar's total assets were $16,589,832. Liabilities as of June 30, 2006 totaled $5,273,588. Novastar had working capital surplus of $9,966,244 at June 30, 2006.

On May 4, 2006, Novastar closed a $15,000,000 private placement for the purpose of acquiring, exploring and developing thorium and rare earth minerals properties as well as to assist it in connection with the planned acquisition of Thorium Power and the development of Thorium Power's business.

While Novastar's management expects these proceeds will meet its foreseeable needs for at least the next 12 months, Novastar may need to raise additional capital by way of an offering of equity securities, an offering of debt securities, or by obtaining financing through a bank or other entity. If Novastar needs to obtain additional financing, that financing may not be available or it may not be able to obtain that financing on terms acceptable to the Company. If additional funds are raised through the issuance of equity securities, there may be a significant dilution in the value of Novastar's outstanding common stock.

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 its 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 its 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 Novastar begins marketing thorium and other minerals, its 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 279% to 284%, a risk-free interest rate of 4.30% to 4.35% and an exercise term of five 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 rector 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, 2005 and 2004

Summary

The following table summarizes the results of Thorium Power's operations during the fiscal year ended December 31, 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	**12/31/05**	**12/31/04**	**$ Increase (Decrease)**	**% Increase (Decrease)**
Revenues	-	-	-	-
Operating Expenses	$ 760,558	$ 974,779	(214,221)	(21.2)%
Other Income	$ 54	$ 105	(51)	(48.5)%
Net Loss	$ 760,504	$ 974,674	(214,170)	(21.9)%
Loss per common share	$ 0.23	$ 0.30	(0.07)	23.3%

Thorium Power's net loss for the fiscal year ended December 31, 2005 was $760,504 or $0.23 per share compared to the previous year's net loss of $974,674 or $0.30 per share for a net loss decrease of $214,170.

This decrease in loss per common share is primarily attributed to a significant reduction in general and administrative expenses due to lower marketing and depreciation expenses.

Cash Flows - Fiscal Year Ended December 31, 2005 and 2004

Cash provided by Operations

Net cash used by operations was $287,597 in the 2005 fiscal year compared to cash used of $265,564 in the previous year.

The change of $22,033 can be attributed to an increase in research and development costs and salaries.

Financing Activities

Thorium Power received net cash from financing activities of $313,375 in its fiscal year ended December 31, 2005, compared to $268,950 in the previous year.

The change of $44,425 can be attributed to an increase in loans advanced to Thorium Power by related parties and proceeds from a long term note.

Results of Operations - Six Months Ended June 30, 2006 and 2005

Summary

The following table summarizes the results of Thorium Power's operations during the six month period ended June 30, 2006 and 2005 and provides information regarding the dollar and percentage increase or (decrease) from the 2006 period to the 2005 period.

Line Item	**06/30/06**	**06/30/05**	**$ Increase (Decrease)**	**% Increase (Decrease)**
Revenues	--	--	--	--
Operating Expenses	$ 356,795	$ 270,796	85,999	32%
Other Expenses	$ 555,553	--	555,553	--
Net Loss	$ 912,348	$ 270,796	641,552	237%
Loss per common share	$ (0.25)	$ (0.08)	0.17	213%

Thorium Power's net loss for the six month period ended June 30, 2006 was $912,348 or $(0.25) per share compared to the same period of the previous year net loss of $270,796 or $(0.08) per share for a net loss increase of 641,552. This increase was attributable to:

- Increase in salaries paid to our executives of $33,250

- An increase in total professional fees incurred in preparation for Thorium Power's upcoming merger with Novastar of $250,386. This increase was offset by a charge back to Novastar for professional fees and other expenses that were paid for on their behalf.

- Increase in travel and other general and administrative expenses of $91,789

- Increase in its contribution to the construction of a high-temperature nuclear research reactor in Texas of $550,000

These increases were offset by decreases due to:

· Expenses that were charges to Novastar for expenses incurred on their behalf, regarding the upcoming merger, which totaled $264,741

A reduction on research and development expenses of $20,000

Cash Flows - Six Months Ended June 30, 2006 and 2005

Cash provided by Operations

Cash used by operations was $1,623,687 during the six month period ended June 30, 2006 as compared to cash used of $112,304 in the previous six month period ended June 30, 2005.

The increase in cash used in operations can be primarily attributed to the increase in operating expenses, as mentioned above, in the results of operations section, as well as a reduction of accrued liabilities ($464,814) and an increase in a receivable from Novastar Resources Ltd for expense incurred on behalf of Novastar and charged back to Novastar ($264,741).

Financing Activities

Thorium Power received cash from financing activities of $2,162,961 during the six month period ended June 30, 2006, compared to $137,160 in the same period of the previous year.

This increase is due to an increase in the proceeds from the issuances of Thorium Power's common stock of $2,120,782. This increase was offset by a decrease in loans from related parties of $71,020 and a decrease in the proceeds received from related parties and long-term debt of $23,961.

Liquidity and Capital Resources

At June 30, 2006, Thorium Power's total assets were $1,032,356. Total liabilities as of June 30, 2006, totaled $508,033. Thorium Power had working capital of $298,568 at June 30, 2006.

Thorium Power anticipates, prior to and following the Merger, that it will continue to have access to the cash that was raised by Novastar in its Private Placement in May, 2005. Thorium Power is in the process of creating a plan to develop and deploy its technology. While Thorium Power presently expects that the proceeds raised in the Private Placement transactions will be sufficient to meet its general operating needs for the next 12 months, Thorium Power will need additional capital to deploy its technology. At this stage of Thorium Power's development, it is difficult to estimate the total costs to fully develop and deploy its technology

On February 22, 2006, Thorium Power entered into a teaming agreement with numerous institutions in the University of Texas System, the City of Andrews, Texas, Midland Development Corporation and the Odessa Development Corporation pursuant to which Thorium Power committed $1,250,000 for the purpose of developing a conceptual design nuclear reactor research facility.

Off Balance Sheet Arrangements

On February 22, 2006, Thorium Power entered into a teaming agreement with The University of Texas System, the University of Texas of the Permian Basin (UTPB) in Odessa, Texas and General Atomics (GA), for the pre-conceptual design phase (PCD) to build a next generation high-temperature reactor in Andrews County, Texas.

Under the terms of the teaming agreement, Thorium Power will be responsible for contributing to the specific thorium fuel designs that will be addressed in the PCD. In addition, to the extent that the PCD may address issues particular to the use of thorium fuel experiments in conjunction with hydrogen generation experiments, Thorium Power will provide its expertise to General Atomics. Thorium Power will contribute $1.25 million toward the PCD phase of the project.

Other than the foregoing, Thorium Power does not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on Thorium Power's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity or capital expenditures or capital resources that are material to an investor in Thorium Power's securities.

Seasonality

Management does not expect that Thorium Power's business will be subject to any material seasonal variations in operations.

Inflation

Management does not expect that Thorium Power's business, revenues and operating results will be affected in any material way by inflation.

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, Thorium Power has identified the following significant policies as critical to the understanding of its financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires Thorium Power’s management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. Thorium Power considers its critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including the following:

- Accounting for expenses in connection with stock options and warrants by using the Black-Scholes option pricing method;

- Valuation of intangible assets;

- Valuation of contingent liabilities

Management relies on historical experience, legal advice and on assumptions believed to be reasonable under the circumstances in making its judgment and estimates. Actual results could differ materially from those estimates.

DESCRIPTION OF BUSINESS

Our History

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, Novastar 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, including any post-effective amendment, 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. completes a merger whereby TP Acquisition merges with and into Thorium Power, with Thorium Power, the surviving corporation, becoming 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.

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.

(i) Nuclear Fuel Design Business

Novastar patented proprietary nuclear fuel designs for use in certain existing commercial nuclear power plants. Its designs are for fuels that will serve

- the market for U.S. and Russian weapons grade plutonium disposition;
- the market for disposition of plutonium in spent nuclear fuel; and
- the market for commercial nuclear fuel.

The above designs require additional developmental work to be used in reactors, and Thorium Power plans to fully develop and commercialize these fuel designs with the cooperation of U.S. and foreign governments and other nuclear businesses.

In 1994 Novastar, through our subsidiary, Thorium Power, began working with the Russian Research Centre Kurchatov on the development and testing of thorium fuel designs. At this time, Novastar also began working with Brookhaven National Laboratory on the development of thorium fuel designs. In 1995, 1996 and 1999, the U.S. government provided grants for work on the thorium fuel project at the Kurchatov Institute. Each of these three grants were matching grants where the US government and Novastar each provided funding. As a result of these grants, contracts between the U.S. government and the Kurchatov Institute and arrangements directly between Novastar and such institute, Novastar has obtained access to several hundred nuclear scientists and engineers at the Kurchatov Institute and other nuclear research institutes and fuel fabrication facilities in Russia that are developing and testing the fuel designs.

Once the fuel designs are further developed and tested, we intend to license our patent and other intellectual property rights to fuel fabricators, nuclear generators, and governments for use in nuclear reactors, or sell the technology to major nuclear companies or government contractors. Novastar plans to remain a technology company. We have no plans to own or operate nuclear facilities or otherwise handle nuclear materials.

Novastar’s thorium/weapons-grade plutonium and thorium/reactor-grade plutonium disposing fuels are designed for effective and safe disposition of weapons-and reactor-grade plutonium in existing nuclear power plants at a lower cost than other approaches.

Novastar’s thorium/uranium nuclear fuel is designed to replace uranium fuels that are currently used in commercial nuclear power plants worldwide. Management believes that thorium fuel could have significant non-proliferation, reactor safety, and environmental benefits compared to conventional uranium fuel. In addition to thorium-based nuclear fuel designs for existing light water reactors, Novastar is exploring the development of advanced nuclear fuel designs for use in the next generation reactors, such as a high-temperature helium-cooled reactor and small light water reactors, which are primarily intended to power commercial facilities and provide electricity for small towns located in remote areas across the globe.

The mission of the Nuclear Fuel Design Business is to develop the fastest, cheapest, and most effective means of disposing of weapons-grade and reactor-grade plutonium by using the plutonium combined with thorium as reactor fuel and to be the world's leading developer of proliferation resistant nuclear fuel designs and to design and patent these designs and coordinate their development and commercialization with large commercial entities and governments worldwide. These designs will allow nuclear power plants to produce electricity without producing weapons-usable plutonium.

The Nuclear Fuel Design Business Story

Before World War II, a then young professor Dr. Edward Teller taught a student named Alvin Radkowsky. Dr. Teller later became one of the greatest nuclear weapons designers, at the Manhattan Project, and then a lead developer of the hydrogen bomb. Dr. Radkowsky, who never worked on bombs, was the leader of the teams that developed the nuclear reactors that propel submarines and other ships, as well as the first commercial nuclear power plant.

In 1948, H.G. Rickover, who would later be known as the legendary Admiral Rickover, proposed the creation of a U.S. nuclear-powered naval fleet. Admiral Rickover believed that the advantages of using nuclear power to propel naval vessels would include the ability of submarines to stay under water for longer periods of time making detection more difficult. Submarines and surface ships, including aircraft carriers, powered by nuclear generators, could also enter combat areas without any need to refuel, obviating the need for refueling tankers to be sent into war zones. Admiral Rickover's dream had many disbelievers. The idea, which at the time seemed grandiose, would require the design of a nuclear reactor that could fit into a relatively small space within a naval vessel.

By this time, Dr. Teller was one of the most legendary names in physics. When asked by Dr. Teller for a recommendation for Admiral Rickover's project, Teller referred Dr. Radkowsky, his former student. In 1948 Admiral Rickover hired Dr. Radkowsky as the first Chief Scientist of the Naval Reactors programs. Dr. Radkowsky held that position from the program's founding in 1948 until he retired from the program in 1972.

In July 1951, the United States Congress authorized the construction of the world's first nuclear powered submarine. Two and a half years later, on January 21, 1954, First Lady Mamie Eisenhower broke the traditional bottle of champagne across the bow of the ship, that had been named the Nautilus, as it slid into the Thames River in Groton, Connecticut, as the world's first nuclear powered ship. Dr. Radkowsky was the Chief Scientist for the Naval Reactors project that designed the nuclear power plant of that ship, and all other nuclear powered naval vessels produced during his tenure. The Nautilus shattered all submerged speed and distance records for naval vessels.

In 1953, President Eisenhower asked Admiral Rickover to work on a project that later became known as Atoms for Peace. The project involved the design of the first commercial nuclear power plant on land that could generate electricity. Dr. Radkowsky was asked to lead the project. The reactor was built just outside Pittsburgh, in Shippingport, Pennsylvania, and it began operating on December 2, 1957. It was in operation until October 1982. The groundbreaking for the plant was held in May 1954, with President Eisenhower in attendance, and on May 26, 1958, President Eisenhower opened the plant as the cornerstone of his Atoms for Peace program and marked the beginning of the commercial nuclear power industry. The Shippingport reactor was a light water breeder reactor, and in many ways would be the prototype of all commercial nuclear power plants to follow. Dr. Radkowsky's name was on the key patents as the inventor of the reactor, including the invention of key technologies, without which commercial nuclear power or nuclear propulsion of ships would not be practical. Dr. Radkowsky also designed a thorium-based fuel, in a novel seed-and-blanket configuration, as the original fuel for this first nuclear power plant.

In 1983, Dr. Edward Teller contacted Alvin Radkowsky to seek Dr. Radkowsky's assistance in developing a nuclear fuel that could work in the world's existing commercial nuclear power plants, but that would not produce nuclear weapons-usable plutonium. Dr. Teller was concerned that plutonium taken from spent fuels could be used to create nuclear weapons. Thereafter, Dr. Radkowsky immediately began working on nuclear fuel designs using thorium.

In 1991, Dr. Radkowsky contacted Seth Grae, our Chief Executive Officer, and asked Mr. Grae to assist him in the development of a company that could create and exploit these fuel designs. At the time, Mr. Grae was a business attorney and Dr. Radkowsky had heard of Mr. Grae's work with emerging companies and asked Mr. Grae to assist in the establishment of a new company that would become Novastar. In the 1980s, while in law school, Mr. Grae had represented Soviet refuseniks, who had been scientists at nuclear institutes in Russia, on a pro bono basis. Mr. Grae was interested in high technology development and international cooperation in technology development. Mr. Grae's father, Joel Grae, met Dr. Radkowsky soon thereafter in New York, and Joel Grae and Dr. Radkowsky founded Radkowsky Thorium Power on January 8, 1992 to develop Dr. Radkowsky's technology.

In 1993, Thorium Power, the predecessor company of Novastar, became one of the first Western companies to have discussions with the Russian Kurchatov Institute, where the Soviet Union's first atomic bomb had been developed, and much of its nuclear reactor technology had been developed. In 1995, Thorium Power's project at the Kurchatov Institute became one of the first recipients of a grant from the US Department of Energy for nuclear work in Russia. Since its founding in 1992, Novastar has been a privately held company developing the nuclear fuel designs originally invented by Dr. Alvin Radkowsky.

The Nuclear Power Industry

Presently, nuclear power provides 7% of the world's energy, including 17% of the world's electricity. According to the International Atomic Energy Agency, there are 443 nuclear power plants in operation today, mostly light water reactors, with the most dominant types being pressurized water reactors (PWRs), boiling water reactors (BWRs) and VVER reactors (a Russian equivalent of PWRs).

The commercial nuclear power industry customers are nuclear power generators, who convert nuclear energy into electricity. The industry serving these customers includes both large vertically-integrated nuclear companies that provide a complete array of reactor services and niche providers. The services include reactor design, construction, servicing, and decommissioning; front-end nuclear fuel services (nuclear fuel materials procurement and processing; nuclear fuel design (Novastar's market of interest) and fuel fabrication); back-end nuclear fuel services (spent fuel management and reprocessing), transportation, and various other services.

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

All three options raise environment, safety, or non-proliferation issues. One recycling technology, used by a small number of nuclear power plants, is mixed oxide (MOX) fuel, a mixture of uranium oxide and recovered plutonium oxide. MOX fuel has never been used in Russian VVER reactors and, due to its higher cost, MOX fuel has never caught on among most nuclear power generators, who prefer the ‘once through” and burial cycle. Because it contains uranium, MOX fuel generates a significant amount of weapons-usable plutonium.

Competition

Novastar’s market of interest is the supply of thorium-based nuclear fuel designs. The world's nuclear fuel fabrication market is controlled by a handful of large nuclear fuel fabricators who develop proprietary uranium-based fuel designs. The key world nuclear fuel market players are, in order of magnitude of fuel fabrication: (1) Areva of France, owned by the French government, (2) Westinghouse, owned by the British government, which has recently agreed to sell Westinghouse to Toshiba, (3) Global Nuclear Fuel, a joint venture of three companies, General Electric, Hitachi and Toshiba, and (4) Russian fuel companies supplying fuel primarily to Russian-type reactors.

Each of these companies has its own fuel design capabilities and also has the ability to fabricate nuclear fuels. Novastar, on the other hand, only intends to provide fuel design services. Novastar does not intend to fabricate fuels. Accordingly, these companies will be Novastar’s competitors in that they may design alternatives to its fuel designs, however, they will also be potential licensees of Novastar’s fuel designs and may fabricate nuclear fuels using Novastar’s fuel design technology.

Novastar faces different competition for each of its three markets for its proprietary nuclear fuel designs:

Thorium/weapons-grade plutonium disposing fuel

This fuel design (the Radkowsky Thorium Plutonium Incinerator, or “RTPI”) was developed to meet the needs of the U.S.-Russia plutonium disposition program. It is the policy of those countries to eliminate their extensive stockpiles of surplus weapons grade plutonium. In 2000, the U.S. and Russia signed a bi-lateral agreement, committing each country to dispose of 34 metric tons of surplus weapons-grade plutonium. Originally, a mixed oxide (MOX) fuel technology, promoted by Areva, was selected by the U.S. Department of Energy (DOE) for both the United States and Russia to accomplish this mission. However, over the past several years, the implementation of the 2000 plutonium disposition agreement has been delayed due to political, financial, and technical issues experienced by the MOX program. During the fiscal years from 1999-2005, Congress appropriated a total of over $3 billion for the MOX program. Despite such significant funding levels, the MOX program has experienced substantial schedule slippage and has made little progress since 1999 toward accomplishing the goal of plutonium disposition. In the consideration of FY07 appropriations, several members of Congress and Committees have publicly expressed doubts the MOX program should continue.

Management believes that Novastar's thorium/weapons-grade plutonium disposing fuel could offer a faster, cheaper, and more effective means to dispose of excess quantities of weapons-grade plutonium by "burning" it using the RTPI fuel design in existing VVER nuclear power plants in Russia (a similar design may be usable in the US and other Western countries). Novastar plans to educate government officials and key decision-makers to convince them to use this technology for the plutonium disposition mission.

Thorium/reactor-grade plutonium disposing fuel

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

Management believes that Novastar's thorium/reactor-grade plutonium disposing fuel technology may offer a more economically viable way to dispose of separated reactor-grade plutonium than the mixed oxide (MOX) fuel or burial alternatives. MOX fuel costs more than conventional uranium fuel, even if separated plutonium is treated as sunk cost and is not included in the fuel cost. Novastar's fuel design, which management expects to be cost competitive with conventional uranium fuel designs, could offer a viable alternative to such reactor operators.

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

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

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

Thorium/uranium fuel

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

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

The primary marketing strategy Novastar intends to pursue with respect to its thorium/uranium fuel product is to first demonstrate the fuel design under the plutonium disposition program. It will then form an alliance or alliances with existing nuclear fuel fabricators, to whom Novastar would license its intellectual property rights to Novastar's thorium/uranium nuclear fuel. An alternative marketing strategy Novastar may pursue is to form an international consortium that may involve government and/or private sectors to build "green field" nuclear fuel fabrication facilities. In that case, Novastar would license its intellectual property rights to the thorium/uranium fuel to the consortium that would own and/or operate the new nuclear fuel fabrication facilities.

Advanced Reactor Fuel

On February 22, 2006, Novastar entered into a teaming agreement with The University of Texas System, the University of Texas of the Permian Basin (UTPB) in Odessa, Texas and General Atomics (GA), for the pre-conceptual design phase (PCD) to build a next generation high-temperature reactor in Andrews County, Texas.

Under the terms of the teaming agreement, Novastar will be responsible for contributing to the specific thorium fuel designs that will be addressed in the PCD. In addition, to the extent that the PCD may address issues particular to the use of thorium fuel experiments in conjunction with hydrogen generation experiments, Novastar will provide its expertise to General Atomics. Novastar will contribute $1.25 million toward the PCD phase of the project.

Sources and Availability of Raw Materials

Novastar is a fuel designer that intends to license its technology to fuel fabricators. Accordingly, Novastar does not plan to utilize any raw materials in the conduct of its operations. However, the fuel fabricators who potentially will license Novastar's fuel designs in the future will need thorium and uranium to fabricate thorium-based fuels.

All of Novastar 's nuclear fuel designs require both thorium and uranium in the oxide form which are the main raw materials for the blanket rods. The seed rods can contain either enriched uranium or plutonium. In addition, both the blanket and the seed rods are designed to be made of zirconium metal as will other fuels assembly components.

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

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

Dependence Upon Government Funding

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

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

While the other two nuclear fuel designs (thorium/reactor-grade plutonium disposing fuel and thorium/uranium fuel) that are being developed by Novastar are intended for commercial applications and are not as dependent on government funding as the thorium/weapons-grade plutonium disposing fuel, they too could benefit from government support for the thorium/weapons-grade plutonium disposing fuel. In particular, deployment of the thorium/weapons-grade plutonium disposing fuel into commercial 1,000-megawatt light water reactors through a government program would provide operating experience. Due to many similarities in the design of the three Novastar nuclear fuel designs, this operating experience could be invaluable to other reactor operators considering switching to one of Novastar 's other two fuels. There are also some potential synergies that could be achieved in the development and testing phase that may be able to reduce the overall research and development cost and shorten the product development cycle for Novastar's three nuclear fuel designs.

Intellectual Property

Novastar's nuclear fuel technologies are protected by several U.S. and international patents. The company's current patent portfolio is comprised of the following patents:

U.S. patents:

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

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

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

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

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

International patents:

Russia - Patent No. 2,176,826

Russia - Patent No. 2,222,837

South Korea - Patent No. 301,339

South Korea - Patent No. 336,214

China - Patent No. ZL 96196267.4

The international patents expire August 16, 2014**.**

Presently, Novastar is in the process of preparing new patent applications that will cover intellectual property that has been developed since the original patent applications were filed.

Over the past two years, most of the funding for research and development activities came from the U.S. government. Since mid-2004, the U.S. Department of Energy has paid approximately $2.5 million to Kurchatov Institute and other Russian institutes for development and testing work they have performed on Novastar’s fuel designs. Novastar has paid approximately $30,000 of its own funds to these Russian contractors within the same time period.

Regulation

No safety regulatory approval is required to design thorium-based nuclear fuels, although certain technology transfers may be subject to national and international export controls. However, the testing, fabrication and use of nuclear fuels by Novastar's future partners and licensees is heavily regulated. The Kurchatov Institute and other locations where Novastar's fuel designs may be initially tested require governmental approvals from the host country's nuclear regulatory authority to test fuel in research reactors and other nuclear testing facilities. The Kurchatov Institute has obtained such approvals from the Russian nuclear regulatory authorities for the ongoing tests of Novastar's fuel designs that are taking place at Russian facilities. Nuclear fuel fabricators, who will potentially fabricate fuel using Novastar's technology under licenses from Novastar, are similarly regulated. Nuclear power plants that may utilize the fuel produced by these fuel fabricators require specific licenses relating to possession and use of nuclear materials as well as numerous other governmental approvals for the ownership and operation of nuclear power plants.

(ii) Mineral Exploration Business

As of fiscal year-end June 30, 2005, Novastar had no mineral properties, but subsequently acquired mineral leases and claims located in Alabama, USA and Queensland, Australia, respectively. These are exploration stage mineral properties prospective for thorium, platinum group metals (PGM) and other rare earth minerals (REM).

Novastar aquired these properties to become a global supplier of thorium to the nuclear energy industry.

The phosphate mineral monazite, which exists as a sand, 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 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.

Government Regulation

Mining operations and exploration activities are subject to various national, state, provincial and local laws and regulations in the United States, Canada and Australia, as well as other jurisdictions, which govern prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, protection of the environment, mine safety, hazardous substances and other matters. Directly, or through a service contractor, Novastar has pending or will make applications for those licenses, permits and other authorizations required to conduct its exploration activities on our leases and claims located in Alabama, USA and Queensland, Australia, respectively. To date, Novastar has spent approximately $395,000 to conduct its mineral exploration activities.

Such approval may involve many levels of government (i.e. Federal, State, Provincial, County and/or City approval), and Novastar cannot predict whether all such approvals will be successfully obtained.

Novastar's exploration projects are subject to various regulations governing protection of the environment, both in North America and in Australia. These laws are continually changing and, as a general matter, are becoming more restrictive. Management intends to conduct business in a way that safeguards public health and the environment.

We believe that we are and will continue to be in compliance in all material respects with applicable statutes and regulations.

Changes to laws and regulations in the jurisdictions where Novastar owns property or may operate in the future could require additional capital expenditures and increased operating costs. Novastar is unable to predict what additional legislation or regulatory requirements, if any, might be proposed or enacted, and how such laws could impact the economics of our projects.

Management expects that it will not incur material capital expenditures for environmental control facilities until it determines that the market for its minerals will support these and all costs of mining.

Competition

Novastar competes with other mining companies in connection with the acquisition of prospective properties and mineral rights. There is competition for the limited number of opportunities, some of which is with other companies having substantially greater financial resources than Novastar. As a result, Novastar may have difficulty acquiring attractive projects at reasonable prices.

Novastar believes no single company has sufficient market power to affect the price or supply of thorium, rare earth minerals, platinum group metals or other minerals in the world market.

Employees

As of September 29, 2006, we have six employees, five of whom are full-time employees.

We also use consultants with specific skills to assist with various aspects of its project evaluation, due diligence and business development.

PROPERTIES

Mineral Property Descriptions and Mining Contracts

On September 14, 2005, Novastar entered into an Assignment of Specific Mineral Rights agreement (the "AGH Assignment Agreement") with Charles Merchant, Novastar's former Chief Executive Officer, who was conducting business under the name American Graphite Holdings ("AGH"), an Alabama sole proprietorship, under which Novastar was assigned all of his mineral rights located on certain properties located in Clay County, Alabama and commonly referred to as the Ashland Graphite Properties. In consideration of the assigned rights, Novastar paid to AGH $100,000 in cash and issued 1,000,000 Novastar restricted shares to AGH, at a deemed issued price of $0.001 per share. In addition, AGH is to receive a $15.00 per ton net royalty of Thorium/monazite removed from the leased properties. In March of 2006, as contemplated by the Merger Agreement, the parties entered into Amendment No. 1 to the AGH Assignment Agreement, whereby the parties agreed that the sole remedy available to AGH for breach of the AGH Assignment Agreement by Novastar shall be the termination of the AGH Assignment Agreement, and that no further relief or recourse, whether in law, in equity or otherwise, will be available to AGH.

44

On September 30, 2005 Novastar entered into a Mining Acquisition Agreement (the "Acquisition Agreement") with Walter Doyle whereby Novastar agreed to acquire an undivided 100% interest in and to any deposits of thorium, monazite and other rare earth minerals on certain mining properties in Queensland, Australia. The consideration paid by Novastar to Mr. Doyle consisted of 5,000,000 restricted shares of common stock of Novastar. In February, 2006, Novastar purchased all such shares from Mr. Doyle for $400,000 and such shares were cancelled. Under the Acquisition Agreement, Novastar is to operate the property subject to the agreement, and is granted the right to prospect, explore, develop and engage in other mining work on and under the property as it deems necessary and desirable, including bringing and erecting buildings, plants, machinery and equipment. Novastar is further permitted to remove all metals and minerals derived from its operations as necessary for testing. Pursuant to the terms of the Acquisition Agreement, Mr. Doyle is to retain 2.5% of the gross proceeds received by Novastar in any year from the sale of thorium, monazite or rare earth minerals of commercial economic value mined from the property, and any concentrates or other materials or products derived therefrom, less (i) the cost of transportation to a smelter or other place of treatment and (ii) any smelter or other treatment charges. In addition, Novastar is to incur its proportionate share of the following amounts spent on or with respect to exploration activities, to total not more than $695,000 as follows: (i) expenditures of $125,000 by December 31, 2006; (ii) expenditures of an additional $150,000 by December 31, 2007; (iii) expenditures of an additional $140,000 by December 31, 2008; (iv) expenditures of an additional $140,000 by December 31, 2009 and (v) expenditures of an additional $140,000 by December 31, 2010. In March of 2006, as contemplated by the Merger Agreement, the parties entered into Amendment No. 1 to the Acquisition Agreement, whereby the parties agreed that the sole remedy available to Mr. Doyle for breach of the Acquisition Agreement by Novastar shall be the termination of the Acquisition Agreement, and that no further relief or recourse, whether in law, in equity or otherwise, will be available to Mr. Doyle.

On December 31, 2005, Novastar entered into an agreement with CM Properties whereby certain mineral right in the Cleburne County District of Alabama can be assigned to Novastar. Novastar will assume 51% of a lease held by the lessee, who was the CEO of Novastar as of December 1, 2005, though who resigned on March 17, 2006, for consideration of 2,000,000 restricted common shares of Novastar. In addition, Novastar must incur $1,500,000 on property expenditures and for each $100,000 in additional expenditures; Novastar will receive an additional 4% interest in the lease up to a maximum of an extra 40% interest. Upon reaching a 91% interest, the lessee shall retain a 9% interest and shall receive $17.50 per ounce of pure Platinum Group Metal (PGM) produced. For each 2,500 ounces of PGM produced, the lessee shall receive an additional 1,000,000 restricted common shares of Novastar, up to a maximum of 8,000,000 shares, for a period of two years from the acquisition of Novastar's 91% interest being obtained**.** Aspects of the contract remain executory, and the company has not issued the 2,000,000 shares, while entities controlled by CM Properties continue to oversee the properties and are reimbursed by Novastar for its services. In February 2006, Novastar and CM Properties amended this Assignment of Mineral Leases to make the sole remedy to CM Properties for a breach of the agreement by Novastar termination of the mineral lease agreements, with no further relief or recourse against Novastar**.** Accordingly, the balance sheet does not reflect the value of the property (this value determined by the stock value of the 2 million shares at the date of the agreement - $380,000) as an asset nor does it reflect Novastar's obligation to issue the shares (valued at the stock value of $380,000) as common stock reserved for future issuance (an equity account on the balance sheet).

Preliminary sample assays for platinum group metals have been taken at the Cleburne County Alabama property, but the results are inconclusive. Novastar has not taken any core samples from the thorium/monazite properties located in Alabama or Australia. No further mineral property descriptions are available for public dissemination at this time.

Other Properties Descriptions

Our subsidiary, Thorium Power, is obligated to pay $3,234 per month for office rent and approximately another $700-1000 per month for utilities and other fees for the rented office space located at 8300 Greensboro Drive, Suite 800, McLean, Virginia 22102. The total size of the leased space is 280 square feet, and is used by Thorium Power's

executives for administrative purposes. The term of the lease expires on December 31, 2006.

Additionally, in 2004, Thorium Power subleased its old office space located at 1901 Pennsylvania Ave, NW, Suite 202, Washington, DC 20006. The total size of the sub-leased space is 2,093 square feet. Pursuant to the sublease agreement, which expires on December 31, 2006 (the expiration date of the underlying lease agreement), the sublessee pays the entire fixed rent amount for the space and Thorium Power is obligated to pay a portion of the total monthly rent payment equal to the prorated portion of the operating expenses and real estate taxes for the building. Thorium Power estimates the total remaining balance owed by Thorium Power under this sublease agreement through December 31, 2006 is about $3,300-4,000 (as of June 14, 2006).

Novastar is obligated to pay approximately $7,000 per month for office rent and approximately another $2,000 per month for other fees for the rented office space located at 8300 Greensboro Drive, Suite 800, McLean, Virginia 22102. The space is used by Novastar's executives for administrative purposes. The term of the lease expires for one office on April 30, 2007 and for the other offices in the summer of 2007.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS.

Directors and Officers

NAME	AGE	POSITION
Seth Grae	43	President, Chief Executive Officer and Director
Thomas Graham, Jr.	72	Interim Secretary and Director
Cornelius J. Milmoe	59	Chief Operating Officer and Director
Andrey Mushakov	29	Executive Vice President - International Nuclear Operations
Larry Goldman	50	Treasurer and Acting Chief Financial Officer
Victor Alessi	66	Director

SETH GRAE. Mr. Grae, age 43, was named the Chief Executive Officer and President of Novastar on March 17, 2006, and effective April 2, 2006, became a director of Novastar. Mr. Grae was the President, the Chief Executive Officer and a director of Thorium Power prior to the consummation of the Merger from April 8, 1997 until his present appointment. Mr. Grae has played an active role in all business activities of Thorium Power prior to the consummation of the Merger since its inception in 1992. Mr. Grae led the efforts that resulted in Thorium Power's, prior to the consummation of the Merger, project at the Kurchatov Institute becoming one of the first grant recipients from the United States Department of Energy ("DOE") for nuclear non-proliferation-related work in Russia. He is a member of the board of directors of the Bulletin of the Atomic Scientists and has served as co-chair of the American Bar Association's Committee on Arms Control and Disarmament. As a former member of the board of directors of the Lawyers Alliance for World Security, Mr. Grae helped advise on the drafting of nuclear export control regulations in China and Belarus, and he participated in consultations with the government of India on nuclear power and weapons. On a pro bono basis, he represented refuseniks, who were nuclear scientists, in securing exit visas from the Soviet Union. Mr. Grae obtained his B.A. from Brandeis University cum laude, J.D. from American University, LL.M. in International Law with honors from Georgetown University and M.B.A. from Georgetown University. He has been admitted to the bars of New York, Connecticut, and Florida (all now inactive).

THOMAS GRAHAM, JR. Ambassador Graham, age 72, became the Interim Secretary and a director of Novastar on April 2, 2006, and Chairman of the Board of Directors on April 4, 2006. Ambassador Graham is one of the world's leading experts in nuclear non-proliferation. He is Chairman of the Board of the Cypress Fund for Peace and Security. Ambassador Graham has served as a senior U.S. diplomat involved in the negotiation of every major international arms control and non-proliferation agreement for the past 35 years, including the Strategic Arms Limitations Talks (SALT), Strategic Arms Reduction Talks (START Treaties), Anti-Ballistic Missile (ABM) Treaty, Intermediate Nuclear Forces (INF) Treaty, Nuclear Non-Proliferation Treaty (NPT), Conventional Armed Forces in Europe (CFE) Treaty and Comprehensive Test Ban Treaty (CTBT). In 1993, Ambassador Graham served as the Acting Director of the U.S. Arms Control and Disarmament Agency (ACDA), and for seven months in 1994 served as the Acting Deputy Director. From 1994 through 1997, he served as the Special Representative of the President of the United States for Arms Control, Non-Proliferation and Disarmament, and in this capacity successfully led U.S. government efforts to achieve the permanent extension of the NPT. He also served for 15 years as the general counsel of ACDA. Ambassador Graham worked on the negotiation of the Chemical Weapon Convention and the Biological Weapons Convention. He drafted the implementing legislation for the Biological Weapons Convention and managed the Senate approval of the ratification of the Geneva Protocol banning the use in war of chemical and biological weapons. He is also Chairman of the Board of Mexco Energy Corporation, an oil and gas exploration company listed on the American Stock Exchange (stock ticker symbol MXC). Ambassador Graham received an A.B. in 1955 from Princeton and a J.D. in 1961 from Harvard University. He is a member of the Kentucky, the District of Columbia and the New York Bars

and is a member of the Council on Foreign Relations. He chaired the Committee on Arms Control and Disarmament of the American Bar Association from 1986-1994. Ambassador Graham received the Trainor Award for Distinction in Diplomacy from Georgetown University in 1995.

CORNELIUS J. MILMOE. Mr. Milmoe, age 59, became a director of Novastar on April 2, 2006 and he was appointed the Chief Operating Officer of Novastar on April 4, 2006. Mr. Milmoe served as General Counsel for General Electric's nuclear fuel business from 1994 until 2000 that provided nuclear fuel fabrication, software and design services to 50 nuclear reactors in the U.S., Europe, Japan, Mexico and Taiwan. At GE Nuclear Fuel, Mr. Milmoe led legal negotiations for all reactor reload contracts (valued at $30 to $300 million each), created a joint venture with Hitachi and Toshiba to build a $70 million modern fuel processing plant that reduced costs by 30% and environmental effluents by 90%, and created a marketing joint venture with ENUSA that led to GE Nuclear Fuel's first fuel sales at plants in Germany and Finland. Since leaving GE in 2000, Mr. Milmoe has run his own consulting firm that has included GE as a major client, focusing on international energy transactions. Mr. Milmoe formed a project team to recover low enriched uranium for fuel fabrication from uranium concentrates at the Ulba Metallurgical plant in Kazakhstan. The DOE-supported project team included GE, Brookhaven National Laboratory, Massachusetts Institute of Technology, Kazatomprom and RWE Nukem. Mr. Milmoe's other projects include construction of a copper-beryllium alloy processing plant in Kazakhstan, sourcing zirconium components in Russia for Western nuclear power plants and R&D agreements for advanced nuclear technologies. Mr. Milmoe's firm has also received contracts to improve DOE reporting and management of all projects relating to the implementation of President Bush's National Energy Policy and DOE's international energy agreements, particularly science and technology agreements and nuclear non-proliferation agreements. Mr. Milmoe earned his B.A. from Colgate University in 1969 and earned his J.D. from Columbia University Law School and was admitted to the bar in 1974. From 1974 to 1980, Mr. Milmoe served as Staff Attorney and Special Assistant to the New York Public Service Commission. From 1980 to 1994, Mr. Milmoe served as a counsel in the following divisions of General Electric: GE Naval & Small Steam Turbines, GE Aircraft Engines, GE Government Services, GE Automated Systems, GE Aircraft Instruments, GE Armament Systems and GE Silicones.

VICTOR E. ALESSI. Dr. Alessi, age 66, became a director of Novastar on August 23, 2006. Dr. Alessi is President Emeritus of the United States Industry Coalition ("USIC"), an organization dedicated to facilitating the commercialization of technologies of the New Independent States ("NIS") of the former Soviet Union through cooperation with its members. He has held such position since August 1, 2006; prior to becoming President Emeritus, Dr. Alessi held the positions of CEO and President of USIC since 1999. Previously, he was President of DynMeridian, a subsidiary of DynCorp, specializing in arms control, nonproliferation, and international security affairs. Before joining DynMeridian in early 1996, Dr. Alessi was the Executive Assistant to the Director, U.S. Arms Control and Disarmament Agency ("ACDA"). At ACDA he resolved inter-bureau disputes, and advised the Director on all arms control and nonproliferation issues. Dr. Alessi served as Director of the Office of Arms Control and Nonproliferation in the Department of Energy ("DOE") prior to his work at ACDA, overseeing all DOE arms control and nonproliferation activities. As a senior DOE representative, Dr. Alessi participated in U.S. efforts that led to successful conclusion of the Intermediate Nuclear Forces (INF), Conventional Forces in Europe, Threshold Test Ban, Peaceful Nuclear Explosions, Open Skies, Strategic Arms Reductions Talks Treaties and the Chemical Weapons Convention. In this role, he was instrumental in implementing the U.S. unilateral nuclear initiative in 1991 and was a member of the U.S. delegation discussing nuclear disarmament with Russia and other states of the former Soviet Union. He was in charge of DOE's support to the U.N. Special Commission on Iraq, to the Nunn-Lugar Initiative, and represented DOE in discussions on the Comprehensive Test Ban ("CTB") with the other nuclear weapons states before the CTB negotiations began in Geneva in 1994. Dr. Alessi has been the U.S. board member to the International Science and Technology Center in Moscow since its founding. He is also the U.S. board member to the Science and Technology Center in Ukraine. Dr. Alessi is a 1963 graduate of Fordham University, where he also earned a licentiate in Philosophy (Ph.L.) in 1964. He studied nuclear physics at Georgetown University, receiving his M.S. in 1968 and Ph.D. in 1969.

ANDREY MUSHAKOV. Mr. Mushakov, age 29, became the Executive Vice President - International Nuclear Operations of Novastar on July 27, 2006. From 2000 until the consummation of the Merger, he held various positions at Thorium Power, including Treasurer and Secretary. He is the primary liaison between Novasatar and the Kurchatov Institute in Moscow. Mr. Mushakov has expertise in financial analysis, financial planning and budgeting, financial reporting and accounting, structuring business transactions, and government contract negotiations. In 2004, Mr.

Mushakov led successful negotiations with officials from the National Nuclear Security Administration and Oak Ridge National Laboratory (ORNL) that resulted in signing of a $3.5 million government contract between ORNL and Kurchatov Institute for work relating to the Novastar's nuclear fuel development effort in Russia. His prior experience includes finance-related work in the banking and construction sectors. Mr. Mushakov has the following degrees: PhD in Economics from St. Petersburg State University of Economics and Finance (Russia), MS in Management with excellence (MBA equivalent) from Hult International Business School (formerly the Arthur D. Little School of Management), based in Cambridge, MA, where he was enrolled as a recipient of the Russian President's Scholarship, and BS in Banking and Finance with honors from the Finance Academy of Russia .

LARRY GOLDMAN. Mr. Goldman, age 50, became the Treasurer and Acting Chief Financial Officer of Novastar on June 13, 2006. Mr. Goldman is a certified public accountant with over 20 years of auditing, consulting and technical experience as a partner in a mid-size New York City based accounting firm, working with a wide variety of companies, assisting them in streamlining their operations and increasing profitability. Prior to joining Novastar, Mr. Goldman worked as the Chief Financial Officer, Treasurer and Vice President of Finance of WinWin Gaming, Inc. (OTCBB: WNWN)**,** a multi-media developer and publisher of sports, lottery and other games**.** Prior to joining WinWin, in October 2004, Mr. Goldman was a partner at Livingston Wachtell & Co., LLP and had been with that firm for the past 19 years. Mr. Goldman is also an independent director and audit committee chairman of Winner Medical Group Inc. (OTCBB: WMDG.OB), a China based manufacturer of medical disposable products and surgical dressings. Mr. Goldman has extensive experience in both auditing and consulting with public companies, and has experience providing accounting and consulting services to the Asian marketplace, having audited several Chinese public companies

Family Relationships

There are no family relationships between any of the foregoing individuals.

Involvement in Certain Legal Proceedings

On March 31, 2006, Novastar, Thorium Power and their respective officers were served, through their counsel, with a verified complaint by Raj Pamnani. Mr. Pamnani alleges that Novastar and Thorium Power and their respective officers breached an oral consulting agreement he alleges was entered into between Mr. Pamnani and Novastar and demands a combination of shares of unrestricted common stock of Novastar and payment of monetary damages in the amount of $10 million plus an additional $5 million in punitive damages. The action was filed in the Supreme Court of the State of New York, County of New York, and Novastar filed a Motion to Dismiss the complaint on May 23, 2006. On August 8, 2006, the parties entered into a Settlement Agreement whereby Mr. Pamnani irrevocably and forever waived and released any and all claims against Novastar, Thorium Power and the other defendants named in the complaint, through the date of execution of the Settlement Agreement, in return for the issuance of 215,000 shares of common stock of Novastar, as well as warrants to purchase 107,500 shares of Novastar common stock at a price of $0.48 per share.

DISCLOSURE OF COMMISSION POSITION OF INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Novastar's bylaws provide that its directors and officers will be indemnified to the fullest extent permitted under the laws of Nevada. Pursuant to Nevada General Corporation law, a corporation may indemnify any of its directors and officers if he acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such conduct was unlawful. In addition, Novastar has obtained a Directors and Officers' Insurance Policy with AIG for a coverage limit of $5 million and excess coverage with Hartford for an additional $5 million.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of our common stock as of the date of this prospectus by (i) each person known to us to be the beneficial owner of more than 5 percent of our outstanding common stock, (ii) each director, (iii) each executive officer, and (iv) all executive officers and directors as a group. Unless otherwise indicated, the address of each of the following persons is 8300 Greenboro Drive, Suite 800, McLean, VA 22102.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner (1)	Percent of Class(2)
Common	Seth Grae	20,420,076 (3)	6.86%
Common	Thomas Graham, Jr.	3,861,894(4)	1.31%
Common	Cornelius J. Milmoe	75,000	0.03%
Common	Larry Goldman	104,166(5)	0.03%
Common	OTC Investments Ltd. 1710-1177 West Hastings Street Vancouver, BC V6E 2L3 Canada	15,000,000	5.13%
Common	Thunder Investors, LLC 200 West Madison Street Chicago, IL 60606	24,150,825	8.26%
Common	Andrey Mushakov 1701 East West Hwy., Apt. 401 Silver Spring, MD 20910	2,789,175(6)	0.95%
Common	Directors & Officers as a Group (5 people)	27,250,311(7)	9.04%

(1) Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Each of the beneficial owners listed above has direct ownership of and sole voting power and investment power with respect to the shares of Company common stock.

(2) A total of 296,114,497 shares of our common stock are considered to be outstanding pursuant to SEC Rule 13d-3(d)(1). For each Beneficial Owner above, any options exercisable within 60 days have been included in the denominator.

(3) Includes 6,380,624 shares underlying Novastar stock options.

(4) Includes 2,646,133 shares underlying Novastar stock options.

(5) Includes 29,166 shares underlying Novastar stock options.

(6) Includes 1,289,175 shares underlying Novastar stock options.

(7) Includes 10,261,765 shares underlying Novastar stock options.

EXECUTIVE COMPENSATION

Summary of Cash and Certain Other Compensation

The following sets forth the annual and long-term compensation for services in all capacities to Novastar for the fiscal years ended June 30, 2006, 2005 and 2004 paid to the Novastar's Chief Executive Officer ("CEO") and other two executive officers who were serving as executive officers at the end of the last completed fiscal year.

Summary Compensation Table

		ANNUAL COMPENSATION			LONG TERM COMPENSATION AWARDS		PAYOUTS	
Name And Principal Position	Year	Salary(1) ($)	Bonus ($)	Other Annual Compensation ($) (4)	Restricted Stock Award(s) ($)	Securities Under-Lying Options/SARs (#)	LTIP Payouts ($)	All Other Compensation ($)
Seth Grae (1)	2006	$ 200,595	$ 0	$ 0	$ 4,150,000	$ 647,133	$ 0	$ 0
President, Chief Executive Officer and Director	2005	$ 158,333	$ 0	$ 0	$ 0	$ 150,000	$ 0	$ 0
	2004	$ 150,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Paul Carter (2)	2006	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Chief Executive Officer, President, Chairman and Director	2005	$ 0	$ 0	$ 40,000	$ 0	$ 0	$ 0	$ 0
	2004	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Charles H. Merchant (3) Interim Chief Executive Officer and Chief Operating Officer Secretary	2006	$ 0	$ 0	$ 0	$ 127,500	$ 0	$ 0	$ 0
	2005	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	2004	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

(1)

Mr. Grae's aggregate salary in 2006, 2005 and 2004, includes $14,583, $145,833 and $125,000 of accrued, but unpaid salary. All of such accrued salary was paid to Mr. Grae in the first quarter of calendar 2006. All of Mr. Grae's salary during the periods indicated was paid by our subsidiary, Thorium Power.

(2) Mr. Carter served as Novastar's Chief Executive Officer from 2002 until December 1, 2005.

(3) Mr. Merchant served as Novastar's interim Chief Executive Officer from December 1, 2005 until March 17, 2006.

(4) The value of perquisites and other personal benefits, securities and property for the named executive officers that do not exceed the lesser of $1,000 or 10% of the total of the annual salary and bonus is not reported herein.

Option Grants in last Fiscal Year

Name	Number of Securities Underlying Options Granted (1)	% of Total Options Granted To Employees in the Fiscal Year	Exercise Price	Expiration Date
Seth Grae - Novastar	7,200,000(1)	69%	$ 0.80	February 2016
Paul Carter	0	0	0	0
Charles H. Merchant	0	0	0	0

(1) These shares were issued after the Fiscal year end of June 30, 2005.

Aggregated Novastar Option Exercises in Last Fiscal Year-End and Fiscal Year-End Option Value Table

The following table contains information concerning the number of shares acquired and value realized from the exercise of options by the named executive officers during fiscal 2006 and the number of unexercised options held by the named executive officers at June 30, 2006.

Name	Shares Acquired on Exercise	Value Realized ($)	Number of Shares of Common Stock Underlying Unexercised Options at Year End June 30, 2006		Value of Unexercised In-The-Money Options at Year End June 30, 2006 (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Seth Grae - Thorium	0	0	6,380,624	0	1,875,903	0
Seth Grae - Novastar	0	0	1,650,000	5,550,000	N/A	N/A
Paul Carter	0	0	0	0	0	0
Charles H. Merchant	0	0	0	0	0	0

(1) Options are "in-the-money" if the market price of a share of common stock exceeds the exercise price of the option. The value of unexercised in-the-money stock options is shown as of June 30, 2006.

Novastar has no retirement, pension or profit sharing program for the benefit of its directors, officers or other employees, but the board of directors may recommend one or more such programs for adoption in the future.

Options/Sars Grants

Effective February 14, 2006, Novastar adopted its 2006 Stock Plan. The 2006 Stock Plan provides for grants of restricted shares of common stock and grants of stock options. Under the terms of the 2006 Stock Plan, as amended on July 17, 2006, Novastar Resources may grant a maximum of 75 million shares of common stock, to consist of no more than 75 million shares issuable under incentive stock options and no more than 37.5 million restricted shares of common stock. The maximum number of restricted shares that may be granted to one individual in any fiscal year is five million shares, and the maximum number of options that may be granted to one individual in any fiscal year is eight million shares. Since adopting the 2006 Stock Plan, Novastar has granted a total of 19,225,000 options to its officers, directors and advisory board members. See “INTERESTS OF NOVASTAR OFFICERS AND DIRECTORS IN THE MERGER” for more information regarding awards that have been granted to officers and directors of Novastar under the 2006 Stock Plan.

Prior to the 2006 Stock Plan, the Novastar board of directors chose to make option or warrant awards to select officers, directors, consultants, or stockholder/investors in order to induce them to assist it in implementing its business model and to provide long term additional incentive. These options or warrants, as awarded, were not awarded pursuant to a plan but were specific individual awards with varying terms and conditions. In some instances, the board of directors reserved the right to cancel these awards for non-performance or other reasons, or established a vesting schedule pursuant to which the award is earned.

Director Compensation

Novastar does not currently have any independent directors other than Victor Alessi. All of Novastar's current directors, other than Mr. Alessi, are also officers of Novastar and are compensated for the services that they provide to Novastar in their capacity as officers. The current directors of Novastar do not receive any additional compensation for the services they provide to Novastar as directors. Directors are reimbursed for out of pocket expenses incurred as a result of their participation on Novastar's board. Mr. Alessi receives $40,000 in cash per year for acting as a director of Novastar. In addition, Mr. Alessi was granted non-qualified options to purchase up to 500,000 shares of the common stock of the Company which shall vest with respect to 1/36 of the total number of shares on September 21, 2006; the remaining shares will subsequently vest 1/36 on the first day of each month thereafter until all options have vested. Novastar also intends to compensate independent directors that are elected or appointed to Novastar's board in the future.

Employment Agreements

On February 14, 2006, at the same time that the merger agreement was entered into among the parties, Novastar and Seth Grae entered into an employment agreement and a stock option agreement. Pursuant to the employment agreement, Novastar has agreed to pay Mr. Grae an annual salary of $275,000 for performing the duties described in the employment agreement. In addition, Novastar issued to Mr. Grae pursuant to the agreement 5,000,000 shares of restricted stock and granted to Mr. Grae 7,200,000 non-qualified stock options, with a term of ten years at an exercise price of $0.795 per share. The options vest with respect to 6/48 of the total number of shares granted on August 14, 2006 and vest 1/48 on first day of each month thereafter until all options have vested. The 5,000,000 shares of restricted stock vest immediately on issuance but 2,500,000 may not be directly or indirectly sold, transferred or otherwise disposed of for a period of one year and the remaining 2,500,000 for a period of two years, except for sales, transfers or other dispositions made to family members, for estate planning purposes, or pursuant to a qualified domestic relations order. The shares will also be subject to the provisions of Rule 144 promulgated under the Securities Act. Mr. Grae was named CEO of Novastar on March 17, 2006, though the agreement did not take effect until April 2, 2006, the date that Novastar obtained D&O liability insurance coverage, and the agreement terminates on April 2, 2011 the fifth anniversary of the date of the agreement. Prior to entering into the employment agreement with Novastar, Mr. Grae was on the Novastar advisory board. He had received a total of 1,000,000 shares of Novastar common stock for agreeing to be on Novastar's advisory board. In addition, prior to the merger Mr. Grae owned 313,698 shares of Thorium Power common stock and options to purchase an additional 208,000 shares of Thorium Power common stock at exercise prices ranging from $4 to $10. Upon consummation of the merger, these Thorium Power securities were converted into Novastar securities. Accordingly, Mr. Grae currently owns a total of 14,039,452 shares of Novastar common stock as well as the options to purchase an additional 12,530,624 shares of Novastar common stock that are described above.

Thomas Graham, Jr. became a director of Novastar on April 2, 2006. On July 27, 2006, Ambassador Graham entered into an employment and stock option agreement with Novastar. Under the employment agreement, Mr. Graham acts as the Chairman and Secretary of Novastar. Pursuant to the employment agreement, Novastar has agreed to pay Ambassador Graham an annual salary of $130,000 for part-time employment of an average of three out of five business days per week or 24 hours of his business time per week. In addition, Novastar granted to Ambassador Graham non-qualified stock options for the purchase of 1,500,000 shares, with a term of ten years at an exercise price

of $0.49. The options vest in equal monthly installments over a three year period. Ambassador Graham owns 190,000 shares of Novastar common stock. Additionally, prior to the merger, Ambassador Graham owned a total of 40,025 shares of Thorium Power common stock and options to purchase 100,000 shares of Thorium Power common stock at a exercise price of $10 per share. Upon consummation of the merger, these Thorium Power securities were converted into Novastar securities. Accordingly, Ambassador Graham currently owns a total of 1,215,761 shares of Novastar common stock as well as options to purchase 4,062,800 shares of Novastar common stock.

Andrey Mushakov has been the Treasurer of Thorium Power since April 2002 and Treasurer and Secretary of Thorium Power since July 2003. On July 27, 2006, Mr. Mushakov entered into an employment and stock option agreement with Novastar. Under the employment agreement, Mr. Mushakov was appointed as the Executive Vice President - International Nuclear Operations. Pursuant to the employment agreement, Novastar has agreed to pay Mr. Mushakov an annual salary of $160,000 for performing the duties described in the agreement. In addition, Novastar issued to Mr. Mushakov, pursuant to the agreement, 1,500,000 shares of restricted stock and granted Mr. Mushakov 2,250,000 non-qualified stock options with a term of ten years at an exercise price of $0.50 per share. On July 27, 2006, 234,375 options vested and the remaining 2,015,625 options will vest in equal monthly installments. The 1,500,000 shares of restricted stock vest immediately on issuance, but 750,000 may not be directly or indirectly sold, transferred or otherwise disposed of for a period of one year and the remaining 750,000 for a period of two years, except for sales, transfers or other dispositions made to family members for estate planning purposes or pursuant to a qualified domestic relations order. Additionally, prior to the merger, Mr. Mushakov owned options to purchase a total of 37,500 shares of Thorium Power common stock. Upon consummation of the merger, these Thorium Power securities were converted into Novastar securities. Accordingly, Mr. Mushakov currently owns 1,500,000 shares of Novastar common stock and 3,211,050 options to purchase shares of Novastar common stock.

Cornelius J. Milmoe has been a director of Novastar since April 2, 2006 and he became the Chief Operating Officer of Novastar on April 4, 2006. Mr. Milmoe owns a total of 75,000 shares of Novastar common stock, which were issued by the Company upon Mr. Milmoe’s employment with the Company. However, 37,500 of these shares may not be directly or indirectly sold, transferred or otherwise disposed of for a period of one year and the remaining 37,500 for a period of two years, except for sales, transfers or other dispositions made to family members, for estate planning purposes, or pursuant to a qualified domestic relations order. The shares will also be subject to the provisions of Rule 144 promulgated under the Securities Act. In connection with his employment with Novastar, Mr. Milmoe is entitled to receive a compensation package that included the following: an annual base salary of $200,000; a stock option grant to acquire 525,000 shares of Novastar common stock pursuant to the Novastar 2006 Stock Plan; an annual incentive bonus to be determined by the board of directors of Novastar; reimbursement for all reasonable and necessary expenses incurred in connection with Mr. Milmoe’s employment with Novastar; and four weeks of paid vacation per year. Mr. Milmoe will also be permitted to participate in all employee benefit plans, policies and practices now or hereafter maintained by or on behalf of Novastar commensurate with Mr. Milmoe’s position with Novastar. Accordingly, Mr. Milmoe currently owns a total of 75,000 shares of Novastar common stock as well as options to purchase 525,000 shares of Novastar common stock.

Larry Goldman became Novastar’s Treasurer and Acting Chief Financial Officer on June 13, 2006. Mr. Goldman owns a total of 75,000 restricted shares of Novastar Common Stock, which were issued by Novastar upon Novastar’s entry into a consulting agreement with Mr. Goldman. Pursuant to the consulting agreement, Mr. Goldman receives hourly compensation of $170.00 for services provided to Novastar, subject to a maximum of ten hours per day. The contract includes payment for a minimum of 40 hours per month. The contract can be terminated by Novastar at any time, but Novastar must provide at least 180 days advance written notice. Pursuant to the consulting agreement, Mr. Goldman was granted nonqualified options for the purchase of an additional 350,000 shares of Novastar common stock pursuant to Novastar’s 2006 stock plan. Accordingly, Mr. Goldman currently owns a total of 75,000 shares of Novastar common stock and options to purchase a total of 350,000 shares of Novastar common stock.

LEGAL PROCEEDINGS

On March 31, 2006, Novastar, Thorium Power and their respective officers were served, through their counsel, with a verified complaint by Raj Pamnani. Mr. Pamnani alleges that Novastar and Thorium Power and their respective officers breached an oral consulting agreement he alleges was entered into between Mr. Pamnani and Novastar and demands a combination of shares of unrestricted common stock of Novastar and payment of monetary damages in the amount of $10 million plus an additional $5 million in punitive damages. The action was filed in the Supreme Court

of the State of New York, County of New York, and Novastar filed a Motion to Dismiss the complaint on May 23, 2006. On August 8, 2006, the parties entered into a Settlement Agreement whereby Mr. Pamnani irrevocably and forever waived and released any and all claims against Novastar, Thorium Power and the other defendants named in the complaint, through the date of execution of the Settlement Agreement, in return for the issuance of 215,000 shares of common stock of Novastar, as well as warrants to purchase 107,500 shares of Novastar common stock at a price of $0.48 per share.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Interest of Some of Novastar's Officers and Directors in the Merger

As of April 2, 2006, Messrs. Grae and Graham, who prior to the consummation of the business combination with Thorium Power were members of the board of directors of Thorium Power, became members of the board of directors of Novastar, post Merger. In addition, on such date, Cornelius J. Milmoe became a director of Novastar and on April 4, 2006 he became Novastar's Chief Operating Officer. Paul Carter, who was the President, Chief Executive Officer, Chief Financial Officer, Treasurer and a director of the Novastar since 2002 has resigned from all of such positions with Novastar and no longer holds any positions with Novastar. Charles Merchant, who was the Chief Operating Officer and Interim Chief Executive Officer and a director of Novastar has resigned from all of such positions with Novastar and no longer holds any positions with Novastar. Sean Mulhearn, the Secretary of Novastar has resigned from such position effective March 17, 2006 and no longer is an officer of Novastar. Seth Shaw, the Director of Strategic Planning of Novastar, continues to hold such position.

CHANGE IN ACCOUNTANTS

None

SELLING STOCKHOLDERS

An aggregate of 124,131,605 shares of our common stock may be offered for sale and sold pursuant to this prospectus by the selling stockholders. These shares consist of:

- 4,209,998 shares of our common stock, and 2,104,999 shares underlying warrants issued pursuant to the private placement completed in November 23, 2005;

- 4,208,331 shares of our common stock, and 2,104,165 shares underlying warrants issued pursuant to the private placement completed on February 14, 2006;

- 36,659,837 shares of our common stock, and 18,329,915 shares underlying warrants issued pursuant to the private placement completed on May 4, 2006; and

- 4,399,180 shares of our common stock, and 2,199,590 shares underlying warrants, which represent the maximum number of securities that may be issued pursuant to the liquidated damages provisions of a registration rights agreement entered into in conjunction with the May 4, 2006 private placement; and

- 49,808,090 shares of our common stock and 107,500 shares underlying warrants 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.

These shares are to be offered by and for the respective accounts of the selling stockholders and any pledgees, donees, assignees and transferees or successors-in-interest of the respective selling stockholders. We have agreed to register all of such securities under the Securities Act and to pay all of the expenses in connection with such registration and sale of the shares (other than underwriting discounts and selling commissions and the fees and expenses of counsel and other advisors to the selling securityholders).

The following table and notes to the table sets forth, with respect to each selling stockholder:

- the name of the selling stockholder and any material relationship the selling stockholder has had with us over the past three years;

- the number of shares of our common stock beneficially owned by the selling stockholder as of the date of this prospectus;

- the number of shares of our common stock being offered for sale by the selling stockholder pursuant to this prospectus; and

- the number of shares of our common stock and percentage that will be beneficially owned by the selling stockholder assuming the selling stockholder disposes of all of the shares being offered pursuant to this prospectus.

Except as set forth in the footnotes to the table below, none of the selling stockholders has held a position as an officer or director of us, nor has any selling stockholder had any material relationship of any kind with us or any of

our affiliates. All information with respect to share ownership has been furnished by the selling stockholders. The shares being offered are being registered to permit public secondary trading of the shares and each selling stockholder may offer all or part of the shares owned for resale from time to time. In addition, unless otherwise specified in the footnotes to the table below, none of the selling stockholders has any family relationships with our officers, directors or controlling stockholders.

Unless otherwise specified in the footnotes to the table below, none of the selling stockholders is a registered broker-dealer or an affiliate of a registered broker-dealer. All persons who are identified as registered broker-dealers or affiliates of registered broker-dealers in the footnotes to the table below are underwriters of the securities listed in the table below opposite their respective names. Further, any entity listed as an affiliate of a registered-broker dealer has represented to us that they acquired the securities to be resold in the ordinary course of business and that at the time of the acquisition they did not have any agreements, understandings or arrangements with any other persons, either directly or indirectly, to dispose of the securities.

Name	Beneficials before the Offering	Shares of Common Stock included in Prospectus	Beneficial Ownership After the Offering	Percentage of Common Stock Owned After the Offering*
Magnetar Capital Master Fund, Ltd.	14,850,000 (1)	14,850,000 (1)	0	0%
WTC-CIF Technical Equity Portfolio (nominee: Finwell & Co.)	2,590,950 (2)	2,590,950 (2)	0	0%
Raytheon Master Pension Trust (nominee: Bost & Co.)	2,584,650 (3)	2,584,650 (3)	0	0%
Raytheon Master Pension Trust	1,261,200 (4)	1,261,200 (4)	0	0%
WTC-CIF Opportunistic Equity Portfolio (nominee: Finwell & Co.)	1,177,200 (5)	1,177,200 (5)	0	0%
Raytheon Master Pension Trust (nominee: Bost & Co.)	678,000 (6)	678,000 (6)	0	0%
Madeira Partners, L.P.	614,700 (7)	614,700 (7)	0	0%
Madeira Investors (Bermuda) L.P.	594,600 (8)	594,600 (8)	0	0%
The Hartford Mutual Funds, Inc.: The Hartford Capital Appreciation II Fund (nominee: Bamaclewind & Co.)	562,500 (9)	562,500 (9)	0	0%
WTC-CIF Special Equity Portfolio (nominee: Finwell & Co.)	524,205 (10)	524,205 (10)	0	0%
Highfields Capital III LP	3,811,770 (11)	3,811,770 (11)	0	0%
Highfields Capital II LP	1,058,820 (12)	1,058,820 (12)	0	0%
Highfields Capital I LP	423,525 (13)	423,525 (13)	0	0%
Cumberland Partners	1,860,234 (14)	1,860,234 (14)	0	0%
Cumberland Benchmarked Partners, L.P.	1,260,480 (15)	1,260,480 (15)	0	0%

Cumber International S.A.	554,325 (16)	554,325 (16)	0	0%
LongView Partners B, L.P.	437,220 (17)	437,220 (17)	0	0%

Name	Beneficial Before the Offering	Shares of Common Stock Included in Prospectus	Beneficial Ownership After the Offering	Percentage of Common Stock Owned After the Offering*
Summer Street Cumberland Investors, LLC	185,370 (18)	185,370 (18)	0	0%
HFR HE Platinum Master Trust	109,290 (19)	109,290 (19)	0	0%
Cumberland Long Partners, L.P.	4,845 (20)	4,845 (20)	0	0%
SF Capital Partners Ltd.	3,529,413 (21)	3,529,413 (21)	0	0%
Sunrise Equity Partners, L.P.	2,647,057 (22)	2,647,057 (22)	0	0%
CAMOFI Master LDC	1,764,705 (23)	1,764,705 (23)	0	0%
Whalehaven Capital Fund Limited	1,764,705 (24)	1,764,705 (24)	0	0%
SDS Capital Group SPC, Ltd.	1,764,705 (25)	1,764,705 (25)	0	0%
GUNDYCO ITF Excalibur Limited Partnership	1,500,000 (26)	1,500,000 (26)	0	0%
RHP Master Fund, Ltd.	882,354 (27)	882,354 (27)	0	0%
Springbok Capital Master Fund, LP	1,716,441 (28)	1,716,441 (28)	0	0%
David Hovey	1,205,882 (29)	1,205,882 (29)	225,000	.08%
Nite Capital	529,500 (30)	529,500 (30)	0	0%
AJW Off Shore Ltd.	416,823 (31)	416,823 (31)	0	0%
Amnon Mandelbaum	352,941 (32)	352,941 (32)	0	0%
Ethel Marie Grossfeld	352,941 (33)	352,941 (33)	0	0%
Daniel M. Kornhauser	352,941 (34)	352,941 (34)	0	0%
BH Capital Investmets LP	352,500 (35)	352,500 (35)	0	0%

David M. Lewis	1,170,000 (36)	1,170,000 (36)	0	0%
Richard and Linda Grossfeld as Joint Tenants	264,705 (37)	264,705 (37)	0	0%
Aaron Foley	225,000 (38)	225,000 (38)	0	0%
AJW Qualified Partners, LLC	201,175 (39)	201,175 (39)	0	0%

Name	Beneficial Before the Offering	Shares of Common Stock Included in Prospectus	Beneficial Ownership After the Offering	Percentage of Common Stock Owned After the Offering*
Gloria Kassin	190,587 (40)	190,587 (40)	0	0%
Thomas Heinlein	1,540,500 (41)	1,540,500 (41)	0	0%
Francis X. Colannino	150,000 (42)	150,000 (42)	0	0%
DCM Limited	383,559 (43)	383,559 (43)	0	0%
AS Capital Partners, LLC	90,000 (44)	90,000 (44)	0	0%
Bruce L. Lewis	240,000 (45)	240,000 (45)	0	0%
Marilyn Adler	88,234 (46)	88,234 (46)	0	0%
David Goodfriend	88,234 (47)	88,234 (47)	0	0%
AJW Partners LLC	78,352 (48)	78,352 (48)	0	0%
Jeffrey Grossfeld	35,293 (49)	35,293 (49)	0	0%
Kevin Grossfeld	35,293 (50)	35,293 (50)	0	0%
Michael P. Murphy	22,500 (51)	22,500 (51)	0	0%
New Millenium Capital Partners II, LLC	9,528 (52)	9,528 (52)	0	0%
Aaron Leiben	1,639,999 (53)	1,639,999 (53)	0	0%
Dynamis Energy Fund L.P.	637,500 (54)	637,500 (54)	0	0%
REF Securities & Co.	499,999 (55)	499,999 (55)	0	0%
John S. Lemak	375,000 (56)	375,000 (56)	0	0%
Keith Bolognese	249,999 (57)	249,999 (57)	0	0%
Philippe Allain	225,000 (58)	225,000 (58)	0	0%
Arthur Veytsman	225,000 (59)	225,000 (59)	0	0%
Michael Karp	162,500 (60)	162,500 (60)	0	0%

David S. Cannizzo	124,999 (61)	124,999 (61)	0	0%
Dynamis Energy Fund Ltd.	112,500 (62)	112,500 (62)	0	0%
Stuart Fox	99,999 (63)	99,999 (63)	0	0%
David DiRicco (64)	182,291 (64)	182,291 (64)	0	0%
Alan Gelband Company Inc. (65)	2,642,256 (65)	2,642,256 (65)	0	0%

Name	Beneficial Before the Offering	Shares of Common Stock Included in Prospectus	Beneficial Ownership After the Offering	Percentage of Common Stock Owned After the Offering*
Mark Mamolen	11,628,175	11,628,175	0	0%
Gilliette Lee Chukat and/or Annette M. Radkowsky	10,989,543	10,989,543	0	0%
Thunder Investors, LLC	24,150,825 (66)	24,150,825 (66)	0	0%
Russell Nichols	105,000 (67)	105,000 (67)	0	0%
Scott Renninger	375,000 (68)	375,000 (68)	0	0%
Richard P. Howard	1,500,000 (69)	1,500,000 (69)	0	0%
George Weiss Associates Profit Sharing Plan; George Weiss Associates, Inc. Profit Sharing Plan	1,000,001 (70)	1,000,001 (70)	0	0%
David Karp	237,499 (71)	159,999 (71)	77,500	0.03%
Kenneth M. Ferjo	127,500 (72)	127,500 (72)	0	0%
Sarah V. Carrasco	15,000 (73)	15,000 (73)	0	0%
Douglas M. Jones	30,000 (74)	30,000 (74)	0	0%
Richard J. Tijaden	60,000 (75)	60,000 (75)	0	0%
Pactrans Limited LLC	15,000 (76)	15,000 (76)	0	0%
Thomas B. Nelis	22,500 (77)	22,500 (77)	0	0%
Mel W. Ortner	15,000 (78)	15,000 (78)	0	0%
J.F. Miller Sales Company	52,500 (79)	52,500 (79)	0	0%
John E. Kiesel	300,000 (80)	300,000 (80)	0	0%
Sean Mulhearn	174,999 (81)	174,999 (81)	0	0%
Seth M. Shaw	)	199,999 (82)	2,235,000	0.82%

	2,434,999 (82			
Gary S. Wade	22,500 (83)	22,500 (83)	0	0%
Raj Pamnani	322,500 (84)	322,500 (84)	0	0%
Possible Liquidated Damages	6,598,760(85)	6,598,760(85)	N/A	N/A
TOTAL SHARES BEING REGISTERED		**124,131,605**		

_____

* Assumes that all of the November 23 Warrants, the May 4 Warrants and February 14 Warrants have been exercised and sold.

(1) Includes 4,950,000 shares of common stock issuable upon exercise of the May 4 Warrants. Magnetar Financial LLC is the investment advisor of Magnetar Capital Master Fund, Ltd. ("Magnetar Master Fund") and consequently has voting control and investment discretion over securities held by Magnetar Master Fund. FMagnetar Financial LLC disclaims beneficial ownership of the shares held by Magnetar Master Fund. Alec Litowitz has voting control over Supernova Management LLC, the general partner of Magnetar Capital Partners LP, the sole managing member of Magnetar Financial LLC. As a result, Mr. Litowitz may be considered the beneficial owner of any shares deemed to be beneficially owed by Magnetar Financial LLC. Mr. Litowitz disclaims beneficial ownership of these shares.

(2) Includes 863,650 shares of common stock issuable upon exercise of the May 4 Warrants. Wellington Management Company, LLP ("Wellington") is an investment adviser registered under the Investment Advisers Act of 1940, as amended. Wellington, in such capacity, may be deemed to share beneficial ownership over the shares held by its client accounts.

(3) Includes 861,550 shares of common stock issuable upon exercise of the May 4 Warrants. Wellington Management Company, LLP ("Wellington") is an investment adviser registered under the Investment Advisers Act of 1940, as amended. Wellington, in such capacity, may be deemed to share beneficial ownership over the shares held by its client accounts.

(4) Includes 420,400 shares of common stock issuable upon exercise of the May 4 Warrants. Wellington Management Company, LLP ("Wellington") is an investment adviser registered under the Investment Advisers Act of 1940, as amended. Wellington, in such capacity, may be deemed to share beneficial ownership over the shares held by its client accounts.

(5) Includes 392,400 shares of common stock issuable upon exercise of the May 4 Warrants. Wellington Management Company, LLP ("Wellington") is an investment adviser registered under the Investment Advisers Act of 1940, as amended. Wellington, in such capacity, may be deemed to share beneficial ownership over the shares held by its client accounts.

(6) Includes 226,000 shares of common stock issuable upon exercise of the May 4 Warrants. Wellington Management Company, LLP ("Wellington") is an investment adviser registered under the Investment Advisers Act of 1940, as amended. Wellington, in such capacity, may be deemed to share beneficial ownership over the shares held by its client accounts.

(7) Includes 204,900 shares of common stock issuable upon exercise of the May 4 Warrants. Wellington Management Company, LLP ("Wellington") is an investment adviser registered under the Investment Advisers Act of 1940, as amended. Wellington, in such capacity, may be deemed to share beneficial ownership over the shares held by its client accounts.

(8) Includes 198,200 shares of common stock issuable upon exercise of the May 4 Warrants. Wellington Management Company, LLP ("Wellington") is an investment adviser registered under the Investment Advisers Act of 1940, as amended. Wellington, in such capacity, may be deemed to share beneficial ownership over the shares held by its client accounts.

(9) Includes 187,500 shares of common stock issuable upon exercise of the May 4 Warrants. Wellington Management Company, LLP ("Wellington") is an investment adviser registered under the Investment Advisers Act of 1940, as amended. Wellington, in such capacity, may be deemed to share beneficial ownership over the shares held by its client accounts.

(10) Includes 174,735 shares of common stock issuable upon exercise of the May 4 Warrants. Wellington Management Company, LLP ("Wellington") is an investment adviser registered under the Investment Advisers Act of 1940, as amended. Wellington, in such capacity, may be deemed to share beneficial ownership over the shares held by its client accounts.

(11) Includes 1,270,590 shares of common stock issuable upon exercise of the May 4 Warrants. Highfields Associates LLC is the General Partner of Highfields Capital III LP.; Jonathan S. Jacobson and Richard L. Grubmann are senior managing members of Highfields LLC and they have voting and/or investment control over the Novastar securities held by Highlands Capital Ltd.

(12)

Includes 352,940 shares of common stock issuable upon exercise of the May 4 Warrants. Highfields Associates LLC is the General Partner of Highfields Capital II LP; Jonathan S. Jacobson and Richard L. Grubmann are senior managing members of Highfields LLC and they have voting and/or investment control over the Novastar securities held by Highlands Capital II LP.

(13) Includes 141,175 shares of common stock issuable upon exercise of the May 4 Warrants. Highfields Associates LLC is the General Partner of Highfields Capital I LP; Jonathan S. Jacobson and Richard L. Grubmann are senior managing members of Highfields LLC and they have voting and/or investment control over the Novastar securities held by Highlands Capital I LP.

(14) Includes 620,078 shares of common stock issuable upon exercise of the May 4 Warrants. Bruce Wilcox, Andrew Wallach, Gary Tynes and Brad Gendell have voting and/or investment control over the Novastar securities owned by Cumberland Partners.

(15) Includes 420,160 shares of common stock issuable upon exercise of the May 4 Warrants. Bruce Wilcox, Andrew Wallach, Gary Tynes and Brad Gendell have voting and/or investment control over the Novastar securities owned by Cumberland Benchmarked Partners, L.P.

(16) Includes 184,775 shares of common stock issuable upon exercise of the May 4 Warrants. Bruce Wilcox, Andrew Wallach, Gary Tynes and Brad Gendell have voting and/or investment control over the Novastar securities owned by Cumber International S.A.

(17) Includes 145,740 shares of common stock issuable upon exercise of the May 4 Warrants. Bruce Wilcox, Andrew Wallach, Gary Tynes and Brad Gendell have voting and/or investment control over the Novastar securities owned by Long View Partners B, L.P.
(18) Includes 61,790 shares of common stock issuable upon exercise of the May 4 Warrants. Bruce Wilcox, Andrew Wallach, Gary Tynes and Brad Gendell have voting and/or investment control over the Novastar securities owned by Summer Street Cumberland Investors, LLC.
(19) Includes 36,430 shares of common stock issuable upon exercise of the May 4 Warrants. Bruce Wilcox, Andrew Wallach, Gary Tynes and Brad Gendell have voting and/or investment control over the Novastar securities owned by HFR HE Platinum Master Trust.
(20) Includes 1,615 shares of common stock issuable upon exercise of the May 4 Warrants. Bruce Wilcox, Andrew Wallach, Gary Tynes and Brad Gendell have voting and/or investment control over the Novastar securities owned by Cumberland Long Partners, L.P.
(21) Includes 1,176,471 shares of common stock issuable upon exercise of the May 4 Warrants. Michael A. Roth and Brian J. Stark exercise voting and investment control over the Novastar securities owned by SF Capital Partners Ltd. Messrs. Roth and Stark disclaim beneficial ownership of such securities. Additionally, Messrs. Roth and Stark are registered broker-dealers.
(22) Includes 882,352 shares of common stock issuable upon exercise of the May 4 Warrants. Level Counter, LLC is the General Partner of Sunrise Equity Partners, L.P. The unanimous vote of Nathan Low, Marilyn Adler and Amnon Mandelbaum have voting control of Level Counter, LLC. Each of these individuals is a registered broker-dealer.
(23) Includes 588,235 shares of common stock issuable upon exercise of the May 4 Warrants. Richard Smithline has voting and/or investment control over the Novastar securities held by CAMOFI Master LDC. Mr. Smithline disclaims beneficial ownership of these securities.
(24) Includes 588,235 shares of common stock issuable upon exercise of the May 4 Warrants. Michael Finkelstein maintains voting power and investment control over the securities held by Whalehaven Capital Fund Limited. Mr. Finkelstein disclaims beneficial ownership of these securities.
(25) Includes 588,235 shares of common stock issuable upon exercise of the May 4 Warrants. Steve Derby maintains voting and/or investment control over the Novastar securities held by SDS Capital Group SPC, Ltd. Mr. Derby disclaims beneficial ownership of the securities except to the extent, if any, of his pecuniary interest.
(26) Includes 500,000 shares of common stock issuable upon exercise of the May 4 Warrants. Excalibur Capital Management Inc. is the General Partner of GUNDYCO ITF Excalibur LP. William Hechter, president of Excalibur Management Inc. has voting and/or investment control over the Novastar securities held by Excalibur LP.

(27) Includes 294,118 shares of common stock issuable upon exercise of the May 4 Warrants. RHP Master Fund, Ltd. is a party to an investment management agreement with Rock Hill Investment Management LP, a limited partnership of which the general partner is RHP General Partner LLC. Pursuant to such agreement, Rock Hill Investment Management directs the voting and disposition of shares owned by RHP Master Fund. Messrs. Wayne Bloch and Peter Lockhart own all of the interests in RHP General Partner. The aforementioned entities and individuals disclaim beneficial ownership of the Novastar securities owned by the RHP Master Fund.
(28) Includes 262,088 shares of common stock issuable upon exercise of the May 4 Warrants, as well as 310,059 shares of common stock issuable upon exercise of the November 23 Warrants. Gavin Saitowitz and Trevor E. Cohen, Managing Members of Springbok Capital Management, LLC, the investment manager of Springbok Capital Master Fund, LP have voting power and investment control over the securities held by Springbok Capital Master Fund, LP.
(29) Includes 235,294 shares of common stock issuable upon exercise of the May 4 Warrants as well as 166,667 shares of common stock issuable upon exercise of the November 23 Warrants.
(30) Includes 176,500 shares of common stock issuable upon exercise of the May 4 Warrants. Keith Goodman, Manager and Partner of Nite Capital, has voting power and investment control over the securities held by Nite Capital. Mr. Goodman disclaims beneficial ownership of these securities.
(31) Includes 138,941 shares of common stock issuable upon exercise of the May 4 Warrants. AJW Offshore, Ltd., formerly known as AJW/New Millennium Offshore, Ltd., is a private investment fund that is owned by its investors and managed by First Street Manager II, LLC. First Street Manager II, LLC, of which Corey S. Ribotsky is the fund manager, has voting and investment control over the Novastar securities held by AJW Offshore Ltd.
(32) Includes 117,647 shares of common stock issuable upon exercise of the May 4 Warrants. Amnon Mandelbaum is a registered broker-dealer.
33) Includes 117,647 shares of common stock issuable upon exercise of the May 4 Warrants.
(34) Includes 117,647 shares of common stock issuable upon exercise of the May 4 Warrants.
(35) Includes 117,500 shares of common stock issuable upon exercise of the May 4 Warrants. Henry Branchfield has voting and/or investment control over the Novastar securities held by BH Capital Investments LP.
(36) Includes 90,000 shares of common stock issuable upon exercise of the May 4 Warrants, as well as 300,000 shares of common stock issuable upon exercise of the February 14 Warrants.
(37) Includes 88,235 shares of common stock issuable upon exercise of the May 4 Warrants. David Lewis is a registered broker-dealer.
(38) Includes 75,000 shares of common stock issuable upon exercise of the May 4 Warrants. Aaron Foley is a registered broker-dealer.
(39) Includes 67,058 shares of common stock issuable upon exercise of the May 4 Warrants. AJW Qualified Partners, LLC, formerly known as Pegasus Capital Partners, LLC, is a private investment fund that is owned by its investors and managed by MW Manager, LLC, of which Corey S. Ribotsky is the fund manager, has voting and investment control over the Novastar securities owned by MW Qualified Partners, LLC.
(40) Includes 63,529 shares of common stock issuable upon exercise of the May 4 Warrants.
(41) Includes 63,500 shares of common stock issuable upon exercise of the May 4 Warrants, as well as 450,000 shares of common stock issuable upon exercise of the February 14 Warrants.
(42) Includes 50,000 shares of common stock issuable upon exercise of the May 4 Warrants.

(43) Includes 37,912 shares of common stock issuable upon exercise of the May 4 Warrants, as well as 89,941 shares of common stock issuable upon exercise of the November 23 Warrants. Gavin Saitowitz and Trevor E. Cohen, Managing Members of Springbok Capital Management, LLC, the investment manager of DCM Limited, have voting power and investment control over the securities held by DCM Limited.
(44) Includes 30,000 shares of common stock issuable upon exercise of the May 4 Warrants. Andrew Smukler has voting power and investment control over the securities held by SF Capital Partners, LLC. Mr. Smukler disclaims beneficial ownership of these securities. Additionally, Mr. Smukler is Managing Member of JAS Securities, LLC, a registered broker-dealer.
(45) Includes 30,000 shares of common stock issuable upon exercise of the May 4 Warrants, as well as 50,000 shares of common stock issuable upon exercise of the February 14 Warrants. Bruce Lewis is a registered broker-dealer.
(46) Includes 29,411 shares of common stock issuable upon exercise of the May 4 Warrants. Marilyn Adler is a registered broker-dealer.
(47) Includes 29,411 shares of common stock issuable upon exercise of the May 4 Warrants. David Goodfriend is a registered broker-dealer.
(48) Includes 26,117 shares of common stock issuable upon exercise of the May 4 Warrants. AJW Partners, LLC is a private investment fund that is owned by its investors and managed by SMS Group, LLC. SMS Group, LLC, of which Mr. Corey S. Ribotsky is the fund manager, has voting and investment control over the Novastar securities owned by MW Partners, LLC.
(49) Includes 11,764 shares of common stock issuable upon exercise of the May 4 Warrants.
(50) Includes 11,764 shares of common stock issuable upon exercise of the May 4 Warrants.
(51) Includes 7,500 shares of common stock issuable upon exercise of the May 4 Warrants.
(52) Includes 3,176 shares of common stock issuable upon exercise of the May 4 Warrants. New Millennium Capital Partners II, LLC, is a private investment fund that is owned by its investors and managed by First Street Manager II, LLC. First Street Manager II, LLC, of which Corey S. Ribotsky is the fund manager, has voting and investment control over the Novastar securities owned by New Millennium Capital Partners II, LLC.
(53) Includes 400,000 shares of common stock issuable upon exercise of the February 14 Warrants, as well as 146,666 shares of common stock issuable upon exercise of the November 23 Warrants.
(54) Includes 212,500 shares of common stock issuable upon exercise of the February 14 Warrants. Dynamis Advisors LLC is the General Partner of Dynamis Energy Fund LP, with Alexander H. Bocock, John H. Bocock, Frederic S. Bocock as the managing members. These members have voting power and investment control over the securities held by Dynamis Energy Fund LP.
(55) Includes 166,666 shares of common stock issuable upon exercise of the February 14 Warrants. Rodd Friedman has voting and/or investment control over the Novastar securities held by REF Securities & Co.
(56) Includes 125,000 shares of common stock issuable upon exercise of the February 14 Warrants.
(57) Includes 83,333 shares of common stock issuable upon exercise of the February 14 Warrants.
(58) Includes 75,000 shares of common stock issuable upon exercise of the February 14 Warrants.
(59) Includes 75,000 shares of common stock issuable upon exercise of the February 14 Warrants.
(60) Includes 54,167 shares of common stock issuable upon exercise of the February 14 Warrants.

(61) Includes 41,666 shares of co