

**U.S. GEOTHERMAL INC.**  
(A Development Stage Company)

**CONSOLIDATED FINANCIAL STATEMENTS**  
(Stated in U.S. Dollars)

**MARCH 31, 2005 and 2004**



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of  
U.S. Geothermal Inc.  
(A development stage company)

We have audited the accompanying consolidated balance sheets of U.S. Geothermal Inc. (a development stage company) and its subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations and comprehensive loss, cash flows, and stockholders' equity for each of the two years then ended and for the cumulative period from February 26, 2002 (date of inception) to March 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as at March 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for the periods indicated in conformity with accounting principles generally accepted in the United States.

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered losses since inception, has not attained profitable operations and is dependent upon obtaining adequate financing to fulfil its development activities. These factors raise substantial doubt that the Company will be able to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Vancouver, Canada

"Morgan & Company"

June 16, 2005  
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**U.S. GEOTHERMAL INC.**  
(A Development Stage Company)

**CONSOLIDATED BALANCE SHEETS**  
(Stated in U.S. Dollars)

	March 31	
	2005	2004
		(Restated, Note 2(f))
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,957,075	\$ 870,513
Refundable tax credit	3,095	7,900
Prepaid expenses	29,099	-
	1,989,269	878,413
<b>Property, Plant and Equipment</b> (Note 4)	595,701	495,418
	\$ 2,584,970	\$ 1,373,831
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 165,102	\$ 185,465
<b>STOCKHOLDERS' EQUITY</b>		
<b>Capital Stock</b> (Note 5)		
Authorized:		
100,000,000 common shares with a \$0.001 par value		
Issued:		
17,331,429 shares at March 31, 2005 and	17,332	12,923
12,922,693 shares at March 31, 2004		
<b>Additional Paid-In Capital</b>	3,485,642	1,881,636
<b>Stock Purchase Warrants</b>	2,460,782	1,136,744
<b>Accumulated Other Comprehensive Income</b>	165,262	35,792
<b>Accumulated Deficit During Development Stage</b>	(3,709,150)	(1,878,729)
	2,419,868	1,188,366
	\$ 2,584,970	\$ 1,373,831

Approved on behalf of the Board:

"Doug Glaspey"

Director

"Paul Larkin"

Director

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

**U.S. GEOTHERMAL INC.**  
(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Stated in U.S. Dollars)

	YEARS ENDED MARCH 31		CUMULATIVE PERIOD FROM INCORPORATION FEBRUARY 26, 2002 TO MARCH 31, 2005
	2005	2004	
		(Restated, Note 2(f))	
<b>Revenue</b>	\$ -	\$ -	\$ -
<b>Expenses</b>			
Consulting fees	489,747	364,205	853,952
Corporate administration and development	118,098	46,879	173,447
Exploration expenditures	438,885	18,141	474,325
Interest and foreign exchange loss	95,885	9,254	105,139
Professional fees	321,081	117,169	511,440
Management fees	86,463	111,855	252,318
Salaries and wages	207,759	-	207,759
Travel and promotion	89,497	12,318	113,765
<b>Loss Before The Following</b>	<b>(1,847,415)</b>	<b>(679,821)</b>	<b>(2,692,145)</b>
<b>Interest Income</b>	<b>16,994</b>	<b>3,423</b>	<b>20,417</b>
<b>Net Loss For The Period</b>	<b>\$ (1,830,421)</b>	<b>\$ (676,398)</b>	<b>\$ (2,671,728)</b>
<b>Basic And Diluted Loss Per Share</b>	<b>\$ (0.12)</b>	<b>\$ (0.11)</b>	
<b>Weighted Average Number Of Shares Outstanding</b>	<b>14,209,468</b>	<b>6,337,901</b>	
<b>Other Comprehensive Income</b>			
Net loss for the period	\$ (1,830,421)	\$ (676,398)	
Foreign currency translation adjustment	165,262	35,792	
<b>Total Comprehensive Loss</b>	<b>\$ (1,665,159)</b>	<b>\$ (640,606)</b>	

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

**U.S. GEOTHERMAL INC.**  
(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Stated in U.S. Dollars)

	YEARS ENDED MARCH 31		CUMULATIVE PERIOD FROM INCORPORATION FEBRUARY 26, 2002 TO MARCH 31, 2005
	2005	2004	
	(Restated Note 2(f))		
<b>Operating Activities</b>			
Net loss for the period	\$ (1,830,421)	\$ (676,398)	\$ (2,671,728)
Add: Non-cash items:			
Depreciation	1,399	323	1,975
Shares issued for other than cash	-	-	49,600
Stock based compensation	295,540	296,081	591,621
Change in non-cash working capital items:			
Accounts payable and accrued liabilities	(20,363)	(97,802)	(81,042)
Prepaid expenses	(29,099)	-	(29,099)
Refundable tax credit	4,805	(2,082)	2,723
	<u>(1,578,139)</u>	<u>(479,878)</u>	<u>(2,135,950)</u>
<b>Investing Activities</b>			
Purchases of property, plant and equipment	(41,331)	(227,306)	(520,325)
Cash acquired on business combination	-	5,798	5,798
	<u>(41,331)</u>	<u>(221,508)</u>	<u>(514,527)</u>
<b>Financing Activities</b>			
Issuance of share capital, net of share issue cost	2,576,562	1,419,878	4,442,290
Advances to affiliated companies	-	86,500	-
	<u>2,576,562</u>	<u>1,506,378</u>	<u>4,442,290</u>
<b>Foreign Exchange Effect On Cash And Cash Equivalents</b>	<u>129,470</u>	<u>35,792</u>	<u>165,262</u>
<b>Increase In Cash And Cash Equivalents</b>	<u>1,086,562</u>	<u>840,784</u>	<u>1,957,075</u>
<b>Cash And Cash Equivalents, Beginning Of Period</b>	<u>870,513</u>	<u>29,729</u>	<u>-</u>
<b>Cash And Cash Equivalents, End Of Period</b>	<u>\$ 1,957,075</u>	<u>\$ 870,513</u>	<u>\$ 1,957,075</u>
<b>Supplemental Disclosure</b>			
Taxes paid	-	-	-
Interest paid	-	-	-
Non-cash investing and financing activities			
Shares issued for settlement of debt	-	173,639	173,639
Shares issued for professional services	-	-	49,600
Shares issued for geothermal property	60,351	-	77,350
Warrants issued for share issue cost	133,341	25,437	158,778

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**U.S. GEOTHERMAL INC.**  
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**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**FOR THE PERIOD FROM INCEPTION, FEBRUARY 26, 2002 TO MARCH 31, 2005**

(Stated in U.S. Dollars)

	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	STOCK PURCHASE WARRANTS	ACCUMULATED OTHER COMPREHENSIVE INCOME	ACCUMULATED DEFICIT DURING DEVELOPMENT STAGE	TOTAL
Shares issued for cash at \$0.015 per share – February 2, 2002	2,600,000	\$ 2,600	\$ 37,400	\$ -	\$ -	\$ -	\$ 40,000
Shares and warrants issued for Geothermal property at \$0.009 – March 5, 2002	1,895,000	1,895	15,105	-	-	-	17,000
Balance, March 31, 2002 – U.S. Geothermal Inc. – Idaho	4,495,000	4,495	52,505	-	-	-	57,000
Shares issued for cash at \$0.25 per share – May 28, 2002 (Note 5(a)(i))	395,000	395	98,355	-	-	-	98,750
Shares issued for services at \$0.25 per share – May 28, 2002 (Note 5(a)(i))	5,000	5	1,245	-	-	-	1,250
Shares issued for cash at \$0.30 per share – November 1, 2002 (Note 5(a)(ii))	1,023,667	1,024	306,076	-	-	-	307,100
Shares issued for services at \$0.30 per share – November 1, 2002 (Note 5(a)(ii))	10,000	10	2,990	-	-	-	3,000
Shares issued for services at \$0.30 per share – February 14, 2003 (Note 5(a)(iii))	151,170	151	45,199	-	-	-	45,350
Net loss for the period	-	-	-	-	-	(164,909)	(164,909)
Balance carried forward, March 31, 2003 – U.S. Geothermal Inc. - Idaho	6,079,837	6,080	506,370	-	-	(164,909)	347,541

**U.S. GEOTHERMAL INC.**  
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**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Continued)**

**FOR THE PERIOD FROM INCEPTION, FEBRUARY 26, 2002 TO MARCH 31, 2005**

(Stated in U.S. Dollars)

	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	STOCK PURCHASE WARRANTS	ACCUMULATED OTHER COMPREHENSIVE INCOME	ACCUMULATED DEFICIT DURING DEVELOPMENT STAGE	TOTAL
Balance brought forward, March 31, 2003 – U.S. Geothermal Inc. - Idaho	6,079,837	\$ 6,080	\$ 506,370	\$ -	\$ -	\$ (164,909)	\$ 347,541
Consolidation adjustment to the number of shares issued and outstanding as a result of the reverse take-over transaction – U.S. Geothermal Inc. – Idaho – December 19, 2003 (Note 3)	(6,079,837)	(6,080)	6,080	-	-	-	-
Legal parent company shares issued and outstanding at time of reverse take-over – U.S. Cobalt Inc. – December 19, 2003 (Note 3)	2,274,616	2,275	(2,275)	-	-	-	-
	2,274,616	2,275	510,175	-	-	(164,909)	347,541
Shares issued for acquisition of U.S. Geothermal Inc. – Idaho (Note 3)	6,939,992	6,940	(6,940)	-	-	(408,166)	(408,166)
Warrants issued for acquisition of U.S. Geothermal Inc. – Idaho (Note 3)	-	-	-	629,256	-	(629,256)	-
Shares and warrants issued for cash at a price of \$0.45 per share in a private placement, net of share issue costs of \$100,559, which consists of \$75,122 paid in cash and \$25,437 paid by the issuance of 83,333 agent's warrants – December 19, 2003 (Note 5(a)(v))	3,322,221	3,322	959,230	457,326	-	-	1,419,878
Shares and warrants issued for conversion of notes at \$0.45 – February 20, 2004 (Note 5(a)(vi))	385,864	386	123,090	50,162	-	-	173,638
Stock options granted (Note 6)	-	-	296,081	-	-	-	296,081
Foreign currency translation	-	-	-	-	35,792	-	35,792
Net loss for the period	-	-	-	-	-	(676,398)	(676,398)
Balance, March 31, 2004	12,922,693	12,923	1,881,636	1,136,744	35,792	(1,878,729)	1,188,366

**U.S. GEOTHERMAL INC.**  
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**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Continued)**  
**FOR THE PERIOD FROM INCEPTION, FEBRUARY 26, 2002 TO MARCH 31, 2005**  
(Stated in U.S. Dollars)

	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	STOCK PURCHASE WARRANTS	ACCUMULATED OTHER COMPREHENSIVE INCOME	ACCUMULATED DEFICIT DURING DEVELOPMENT STAGE	TOTAL
Balance, March 31, 2004	12,922,693	\$12,923	\$ 1,881,636	\$ 1,136,744	\$ 35,792	\$ (1,878,729)	\$ 1,188,366
Shares and warrants issued for cash at a price of \$0.66 in a private placement, net of share issue costs of \$358,472, which consists of \$225,131 paid in cash and \$133,341 paid by the issuance of 280,000 agent's warrants – September 17, 2004 (Note 5(a)(vii))	4,000,001	4,000	1,103,082	1,324,038	-	-	2,431,120
Shares issued for property at a price of \$0.60 – February 22, 2005 (Note 5(a)(x))	100,000	100	60,251	-	-	-	60,351
Shares issued for stock options exercised (Note 5(viii)(ix))	308,735	309	145,133	-	-	-	145,442
Stock options granted (Note 6)	-	-	295,540	-	-	-	295,540
Foreign currency translation	-	-	-	-	129,470	-	129,470
Net loss for the year	-	-	-	-	-	(1,830,421)	(1,830,421)
Balance, March 31, 2005	17,331,429	\$17,332	\$ 3,485,642	\$ 2,460,782	\$ 165,262	\$ (3,709,150)	\$ 2,419,868

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

**U.S. GEOTHERMAL INC.**  
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**NOTES CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2005 AND 2004**  
**(Stated in U.S. Dollars)**

**1. NATURE OF OPERATIONS AND GOING CONCERN**

a) Organization

U.S. Cobalt Inc. ("GTH") completed a reverse take-over on December 19, 2003 (Note 3). The effect of this reverse take-over was that the former stockholders of U.S. Geothermal Inc. ("GEO - Idaho") a company incorporated on February 26, 2002 in the state of Idaho, acquired control of GTH. In connection with the transaction U.S. Cobalt Inc. changed its name to U.S. Geothermal Inc. and consolidated its common stock on a one new to five old basis. All references to common shares in these financial statements have been restated to reflect the roll-back of common stock.

b) Development Stage Activities

The Company has been in the development stage since its formation and has not yet realized any revenues from its planned operations. GEO - Idaho operates for the purpose of acquiring geothermal properties and has entered into an agreement with Vulcan Power Company ("Vulcan") of Bend, Oregon, U.S.A., pursuant to which the Company has agreed to acquire up to a 100% interest in the Raft River Geothermal Property located in Cassia County, Idaho, U.S.A. (Note 4).

c) Going Concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the realization of assets and discharge of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company has incurred an accumulated deficit of \$3,709,150 for the period from February 26, 2002 (inception) to March 31, 2005, and has no revenue from operations.

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**NOTES CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2005 AND 2004**  
(Stated in U.S. Dollars)

**1. NATURE OF OPERATIONS AND GOING CONCERN (Continued)**

c) Going Concern (Continued)

The Company is in the process of developing its geothermal properties and has not yet determined whether these properties contain economically recoverable geothermal reserves. The recoverability of the amounts shown for geothermal properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production. The Company expects to continue to incur substantial losses to complete the development of its business. Since its inception, the Company has funded operations through common stock issuances in order to meet its strategic objectives. Management believes that sufficient funding will be available to meet its business objectives, including anticipated cash needs for working capital, and is currently evaluating several financing options. Management may seek additional capital through public and/or private offerings of its common stock. In the event the Company is unable to obtain additional financing, there is no assurance that the Company will be able to continue as a going concern. These financial statements do not give effect to any adjustments, which may be necessary should the Company be unable to continue as a going concern.

**2. ACCOUNTING POLICIES**

a) Basis of Presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. These consolidated financial statements include the accounts of the following companies:

- i) U.S. Geothermal Inc. (incorporated in the state of Delaware);
- ii) U.S. Geothermal Inc. (incorporated in the state of Idaho);
- iii) U.S. Cobalt Inc. (incorporated in the state of Colorado).

All inter-group transactions are eliminated on consolidation with GEO-Idaho being the acquirer for accounting purposes.

b) Use of Estimates

The presentation of financial statements in accordance with generally accepted accounting principles required management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates which have been made using careful judgement.

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**NOTES CONSOLIDATED FINANCIAL STATEMENTS**

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**2. ACCOUNTING POLICIES** (Continued)

c) Property, Plant and Equipment

Costs of acquisition of geothermal properties are capitalized on an area-of-interest basis. Amortization of these costs will be on a unit-of-production basis, based on estimated proven geothermal reserves should such reserves be found. If an area of interest is abandoned, the costs thereof are charged to income in the year of abandonment.

The Company expenses all costs related to the development of geothermal reserves prior to the establishment of proven and profitable reserves.

Other equipment is recorded at cost. Depreciation of other equipment is calculated on a straight-line basis at an annual rate of 30%.

d) Impairment of Long-Lived Assets

SFAS No. 144 - "Accounting for the Impairment or Disposal of Long-Lived Assets" establishes a single accounting model for long-lived assets to be disposed of by sale including discontinued operations. SFAS 144 requires that these long-lived assets be measured at the lower of the carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations.

e) Income Taxes

The Company accounts for income taxes pursuant to SFAS No. 109 - "Accounting for Income Taxes". Under SFAS No. 109, the Company is required to compute tax asset benefits for net operating losses carried forward. The potential benefit of net operating losses has not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

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**NOTES CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2005 AND 2004**  
(Stated in U.S. Dollars)

**2. ACCOUNTING POLICIES** (Continued)

f) Stock Based Compensation

At March 31, 2005, the Company has a stock option plan, which is described more fully in Note 6. Prior to March 31, 2005, the Company accounted for stock options under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost was reflected in previously reported results, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective April 1, 2004, the company adopted the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, for stock-based employee compensation. All prior periods presented have been restated to reflect the compensation cost that would have been recognized had the recognition provisions of Statement 123 been applied to all awards granted to employees after January 1, 1995.

As a result of implementation, the provision had the following effect on the Company's March 31, 2004 Consolidated Financial Statements:

Changes to consolidated balance sheet

Increase to additional paid-in capital	\$ 73,095
Increase to accumulated deficit during development stage	\$ (73,095)

Changes to consolidated statement of operations

Net loss for the year before change in accounting policy	\$ (603,303)
Increase in net loss:	
Stock based compensation	<u>(73,095)</u>
Net loss for the year after change in accounting policy	<u>\$ (676,398)</u>

g) Financial Instruments

The Company's financial instruments consist of cash and equivalents, refundable tax credits, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Refundable tax credit is comprised of Goods and Services Tax ("GST") which is refundable from the Government of Canada.

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**MARCH 31, 2005 AND 2004**  
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**2. ACCOUNTING POLICIES** (Continued)

h) Basic and Diluted Loss Per Share

In accordance with SFAS No. 128 – “Earnings Per Share”, the basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed similar to basic loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. As the Company generated net losses in each of the periods presented, the basic and diluted loss per share is the same, as any exercise of options or warrants would be anti-dilutive.

i) Foreign Currency Translation

U.S. Geothermal has adopted the U.S. dollar as its reporting currency since most of its operations are located in the United States and to facilitate a more direct comparison to other North American exploration stage companies. All references to US\$ or to \$ are to United States dollars and references to CDN\$ are to Canadian dollars.

The financial statements of the Company are translated from its CDN\$ functional currency to the US\$ reporting currency using the current rate method, whereby assets and liabilities are translated at period-end exchange rates, while revenues and expenses are translated using average rates over the period. Adjustments resulting from this translation process are reflected as a separate component of shareholder's equity.

The financial results of the Company's foreign subsidiaries are translated into its CDN\$ functional currency as follows: monetary assets and liabilities at the rates of exchange prevailing at the balance sheet date; other assets and liabilities at the applicable historical exchange rates; and revenues and expenses at the average rates over the period, except for non-monetary expenses which are at the rates used for the translation of the related assets. Gains and losses rising from this translation process are included in operations.

j) Restoration Costs

SFAS No. 143 - “Accounting for Asset Retirement Obligations,” requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. As at March 31, 2005, the Company does not have any asset retirement obligations.

k) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short term deposits with maturities of no more than ninety days when acquired.

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**2. ACCOUNTING POLICIES** (Continued)

l) Recent Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 150 – “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity”. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The requirements of SFAS No. 150 apply to issuers’ classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract. SFAS No. 150 does not apply to features that are embedded in a financial instrument that is not a derivative in its entirety. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of non-public entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this standard did not have a material effect on the Company’s results of operations or financial position.

FASB has also issued SFAS No. 145, 146, 147, 149, 151, 152, 153, and 154 but they will not have any relationship to the operations of the Company, therefore, a description of each and their respective impact on the Company’s operations have not been disclosed.

**3. REVERSE TAKE-OVER**

Effective December 19, 2003, GTH acquired 100% of the issued and outstanding voting shares of GEO - Idaho by issuing 6,939,992 common shares and 2,420,217 share purchase warrants, of which 4,147,534 common shares and 1,452,130 share purchase warrants were held in escrow as at March 31, 2005 (March 31, 2004, 6,204,694 common shares and 2,178,195 share purchase warrants). Each share purchase warrant entitles the holder to purchase one additional common share at a price of \$0.75 per share until December 15, 2005. Since the transaction resulted in the former shareholders of GEO - Idaho owning the majority of the issued shares of GTH, the transaction, which is referred to as a “reverse take-over”, has been treated for accounting purposes as an acquisition by GEO - Idaho of the net assets and liabilities of GTH. Under this purchase method of accounting, the results of operations of GTH are included in these financial statements from December 19, 2003. GEO - Idaho is deemed to be the purchaser for accounting purposes. Accordingly, its net assets are included in the balance sheet at their previously recorded values.

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**3. REVERSE TAKE-OVER (Continued)**

The Company has determined that the share purchase warrants issued as part of the transaction have a fair value of \$629,256 as determined by using the Black-Scholes pricing model with the assumptions as stated in Note 5(c). The amount is considered to be additional consideration given to the former GEO-Idaho shareholders and, as such, has been allocated, along with the net liabilities assumed of GTH, to deficit.

The acquisition is summarized as follows:

Current assets (including cash of \$5,798)	\$ 11,616
Current liabilities	<u>(419,782)</u>
Net liabilities assumed	<u>\$ (408,166)</u>

The net liabilities assumed has been charged to accumulated deficit.

**4. PROPERTY, PLANT AND EQUIPMENT**

GEO-Idaho entered into an agreement, as amended December 3, 2002, with Vulcan Power Company ("Vulcan"), a company incorporated in Oregon, U.S.A., to purchase up to a 100% interest in the Raft River Geothermal Property ("the Property") located in Cassia County, Idaho, U.S.A., in exchange for 1,895,000 shares (the "old shares") and 1,612,000 warrants (the "old warrants") of GEO-Idaho and up to \$600,000 in cash. A condition to acquiring 100% of the Property is the completion by GEO-Idaho of at least a \$200,000 work program on the Property. The old shares and old warrants were exchanged subsequent to December 31, 2002 (as part of the reverse take-over described in Notes 3 and 5(a)(v)) for shares and warrants of the Company.

As at March 31, 2005, the Company has acquired a 75% interest in the Property by making cash payments totalling \$250,000 in fiscal 2003 and \$225,000 in fiscal 2004. The Company has also completed the work program.

To purchase the remaining 25% interest in the Property, the Company must pay Vulcan \$125,000 on or before receipt of project financing for construction of the power plant.

During the year ended March 31, 2005, the Company acquired 100 acres of surface and energy rights in exchange for a cash payment of \$40,000 and issuance of 100,000 common shares.

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**4. PROPERTY, PLANT AND EQUIPMENT (Continued)**

Property, plant and equipment consisted of the following:

	2005	2004
Geothermal property (land and equipment)		
Shares issued	<b>\$ 60,351</b>	\$ -
Cash payments	<b>40,000</b>	225,000
	<b>100,351</b>	225,000
Balance, beginning of year	<b>492,000</b>	267,000
Balance, end of year	<b>592,351</b>	492,000
Other equipment		
Acquisitions	<b>1,331</b>	2,306
Balance, beginning of year	<b>3,994</b>	1,688
Balance, end of year	<b>5,325</b>	3,994
	<b>597,676</b>	495,994
Less: Accumulated depreciation	<b>(1,975)</b>	(576)
	<b>\$ 595,701</b>	\$ 495,418

**5. STOCK CAPITAL**

a) Shares Issued

- i) On May 28, 2002, the Company issued 395,000 common shares for at a price of \$0.25 per share for cash proceeds of \$98,750 and 5,000 common shares for consulting services. The shares issued for services had a fair value on that date of \$1,250. Accordingly, the shares issued for services were recorded as a charge to consulting fees in the consolidated statement of operations.
- ii) On November 1, 2002, the Company issued 1,023,667 common shares at a price of \$0.30 per share for cash proceeds of \$307,100 and 10,000 common shares for services related to the geothermal property. The shares issued for services had a fair value on that date of \$3,000. Accordingly, these shares were recorded as a charge to exploration expenditures in the consolidated statement of operations.
- iii) On February 14, 2003, the Company issued 151,170 common shares to directors of the Company for management services. These shares had a fair value on that date of \$45,350. Accordingly, these shares were recorded as a charge to management fees in the consolidated statement of operations.

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**5. STOCK CAPITAL (Continued)**

a) Shares Issued (Continued)

- iv) On April 25, 2003, the Company committed to issue convertible promissory notes in an aggregate principal amount of \$269,000. The notes were convertible, at the option of the holder, into units as described in subparagraph (vi), except with respect to the expiration date of the units. The notes carried an interest rate of 20%. See subparagraph (vi).
- v) On December 19, 2003, the Company issued 6,939,992 shares and 2,420,217 warrants (the "new warrants") to the shareholders of GEO-Idaho to effect the reverse take-over ("RTO"). Pursuant to the negotiated agreement of the parties, as approved by the TSX Venture Exchange, the GEO-Idaho shares were exchanged on a one-for-one basis with all shareholders other than Vulcan Power Company, which received shares and warrants so that Vulcan Power would own 14% on a non-diluted and 25% on a fully-diluted basis after closing (taking into account the private placement closed in conjunction with the RTO discussed below). To meet these percentages, Vulcan was issued 1,755,159 shares and 2,420,217 warrants. Vulcan held 1,895,000 GEO-Idaho shares and 1,612,000 GEO-Idaho warrants prior to the RTO. The new warrants, issued only to Vulcan as the sole old warrant holder of GEO-Idaho, have an exercise price of \$0.75 per share and expire December 15, 2005. Concurrently, the Company issued 3,322,221 units for a private placement at a price of \$0.45 per unit. Each unit consists of one common share and one half of one share purchase warrant. Each full share purchase warrant entitles the holder to purchase one additional common share at a price of \$0.75 per share until December 15, 2005. The share issuance costs of this issuance were \$100,559. Of this amount, \$75,122 was paid in cash and \$25,437 was paid by the issuance of 83,333 agent's warrants to purchase up to 83,333 common shares, exercisable at a price of \$0.45 until December 15, 2005. The value assigned to the new warrants was \$629,256 (\$0.26 per warrant), and the value assigned to the warrants included in the units was \$431,889 (\$0.26 per warrant) as calculated by the Black-Scholes model. The exercise date of the warrants issued in connection with the private placement and agent services can be accelerated to 30 days after written notice from the Company provided that the Company has obtained both: (i) all material permits and licenses necessary to authorize initiation of construction of a 10 megawatt power plant; and (ii) power purchase and transmission agreements. The fair value of the agent's warrants of \$25,437 (\$0.30 per warrant) was calculated by the Black-Scholes model. The share issue costs have been netted against the proceeds allocated to additional paid in capital.

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**5. STOCK CAPITAL (Continued)**

a) Shares Issued (Continued)

- vi) During the year ended March 31, 2004, the Company made cash payments totalling \$137,398 pursuant to the convertible notes described in subparagraph (iv). On February 20, 2004, the Company issued 385,864 units, at a value of \$0.45 per unit, on conversion of amounts due under convertible promissory notes totalling \$173,639, including unpaid principal of \$147,000 and interest accrued at a rate of 20% per annum totalling \$26,638. Each unit is identical to the units issued in the December 2003 private placement, other than the term of the warrants expires on February 17, 2006.
  
- vii) On September 17, 2004, the Company issued 4,000,001 units for a private placement at a price of \$0.85 CDN (\$0.66 U.S. as at September 17, 2004) per unit. Each unit consists of one common share and one share purchase warrant. Each full share purchase warrant entitles the holder to purchase one additional common share at a price of \$1.25 CDN (\$1.03 U.S. as at March 31, 2005) per share until September 17, 2006. Should the closing price of the Company's common shares exceed \$1.65 CDN (\$1.36 U.S. as at March 31, 2005) per share for twenty consecutive trading days, the exercise date of the warrants can be accelerated to a date not earlier than twenty days following the date of the press release indicating the acceleration.  
  
In payment for services provided in connection with the private placement, the Company paid \$225,131 in cash and granted 280,000 agent's warrants exercisable at a price of \$0.85 CDN (\$0.70 U.S. as at March 31, 2005) until September 17, 2006. The warrants are exercisable into units identical (including with respect to acceleration) to the units offered in the private placement. The fair value of \$133,341 as calculated by the Black-Scholes model was recorded as a share issue cost.
  
- viii) On October 20, 2004, the Company issued 278,735 common shares upon the exercise of 278,735 stock options at an exercise price of \$0.60 CDN (\$0.47 U.S. as at October 20, 2004).
  
- ix) On February 18, 2005, the Company issued 30,000 common shares upon the exercise of 30,000 stock options at an exercise price of \$0.60 CDN (\$0.49 U.S. as at February 18, 2005).
  
- x) On February 23, 2005, the Company issued 100,000 common shares at a price of \$0.60 for two parcels of land and energy rights at its Raft River Property valued at \$60,351.

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**5. STOCK CAPITAL (Continued)**

b) Escrow Shares

The following common shares and share purchase warrants are in escrow:

	2005	2004
Common shares	<b>4,241,540</b>	6,439,567
Share purchase warrants	<b>1,946,937</b>	2,678,195

The escrow shares and warrants are held in escrow pursuant to standard requirements of the TSX Venture Exchange, which required the escrow conditions be placed upon the shares and share purchase warrants issued in conjunction with the acquisition of GEO-Idaho (Note 3) and the concurrently completed private placement (Note 5(a)(v)).

c) Stock Purchase Warrants

As at March 31, 2005, the following share purchase warrants are outstanding:

WARRANTS ISSUED PURSUANT TO	EXERCISABLE INTO NUMBER OF COMMON SHARES	EXERCISE PRICE	EXPIRY DATE	FAIR VALUE (1)
Acquisition of U.S. Geothermal – Idaho Inc.	2,420,217	\$0.75	December 15, 2005	\$ 629,256
Private placement	1,661,110	\$0.75	December 15, 2005	\$ 431,889
Agent's warrants	83,333	\$0.45	December 15, 2005	\$ 25,437
Conversion of notes	192,932	\$0.75	February 17, 2006	\$ 50,162
Private placement	4,000,001	\$1.25 CDN	September 17, 2006	\$1,190,697
Agent's warrants	280,000	\$0.85 CDN	September 17, 2006	\$133,341
	8,637,593			\$2,460,782

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**5. SHARE CAPITAL** (Continued)

- (1) The Black-Scholes option pricing model was used to determine the fair value of the warrants, with the following assumptions:

	<b>2005</b>	<b>2004</b>
Dividend yield	<b>0%</b>	0%
Expected volatility	<b>150%</b>	136%
Risk free interest rate	<b>2.65%</b>	4.18%
Expected life	<b>24 months</b>	24 months

**6. STOCK BASED COMPENSATION**

The Company's 2004 stock option plan provides for the grant of incentive stock options for up to 2,584,000 common shares to employees, consultants, officers and directors of the company. Options are granted for a term of up to five years from the date of grant. Stock options granted generally vest over a period of eighteen months.

During the year ended March 31, 2005, the Company granted 560,000 stock options to consultants, directors and officers exercisable at prices ranging from \$0.72 to \$0.90 CDN (\$0.47 to \$0.59 USD as at March 31, 2005).

During the year ended March 31, 2004, the Company granted 1,745,000 stock options to consultants, directors and officers exercisable at a price of \$0.60 CDN (\$0.50 USD as at March 31, 2005) until January 3, 2009.

Compensation expense related to stock options granted is recorded at their fair value as calculated by the Black-Scholes option pricing model. Compensation expense of \$264,090 was included in consulting fees and \$31,451 was included in salaries and wages for the year ended March 31, 2005 (March 31, 2004 - \$296,081).

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**6. STOCK BASED COMPENSATION (Continued)**

The changes in stock options are as follows:

	<b>NUMBER</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>
Balance outstanding, March 31, 2003	-	\$ -
Granted	1,745,000	0.60 CDN
Balance outstanding, March 31, 2004	1,745,000	\$ 0.60 CDN
Granted	560,000	\$ 0.75 CDN
Cancelled	(240,000)	0.60 CDN
Exercised	(308,735)	0.60 CDN
Balance outstanding March 31, 2005	1,756,265	\$ 0.65 CDN

The following table summarizes information about the stock options outstanding at March 31, 2005:

<b>OPTIONS OUTSTANDING</b>			<b>OPTIONS EXERCISABLE</b>
<b>EXERCISE PRICE</b>	<b>NUMBER OF SHARES</b>	<b>REMAINING CONTRACTUAL LIFE (YEARS)</b>	<b>NUMBER OF SHARES</b>
\$ 0.60CDN	1,196,265	3.76	897,199
0.72CDN	470,000	4.67	117,500
0.90CDN	90,000	4.62	22,500
\$ 0.65CDN	1,756,265	4.05	1,037,199

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**6. STOCK BASED COMPENSATION** (Continued)

The fair value of the stock options granted was estimated using the Black-Scholes option-pricing model and is amortized over the vesting period of the underlying options. The weighted average fair value of options granted was \$0.50 per share. The assumptions used to calculate the fair value are as follows:

	2005	2004
Dividend yield	0	0
Expected volatility	116%	136%
Risk free interest rate	3.88%	4.18%
Expected life	5 Years	5 Years

Changes in the subjective input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

**7. INCOME TAX LOSSES**

The Company's provision for income taxes differs from the amounts computed by applying the United States federal statutory income tax rates to the loss as a result of the following:

	2005	2004
Statutory rates	35%	35%
Recovery of income taxes computed at statutory rates	\$ (641,000)	\$ (237,000)
Non-deductible items	104,000	104,000
Temporary differences	38,000	1,000
Tax benefit not recognized on current losses	499,000	132,000
	\$ -	\$ -

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**7. INCOME TAX LOSSES (Continued)**

The components of the deferred tax asset and valuation allowance are long-term items. Whereas no reduction in valuation is anticipated within a year, the tax effects of timing differences that give rise to significant components of the future tax assets and future tax liabilities are as follows:

	<b>2005</b>	2004
Net operating loss carry forward	<b>\$ 687,000</b>	\$ 188,000
Property, plant and equipment	<b>40,000</b>	3,000
Less: Valuation allowance	<b>(727,000)</b>	(191,000)
	<b>\$ -</b>	\$ -
Deferred tax asset	<b>\$ -</b>	\$ -

At March 31, 2005, the Company has net operating losses of approximately \$1,962,000, which may be carried forward to apply against future years' income for tax purposes expiring as follows:

2023	\$ 160,000
2024	\$ 377,000
2025	\$ 1,425,000

**8. COMMITMENTS**

- a) The Company has entered in several lease agreements with terms expiring up to December 1, 2034, for geothermal properties adjoining the Raft River Geothermal Property.

The leases provide for the following annual payments within the next five years:

2006	\$ 22,700
2007	\$ 22,900
2008	\$ 14,700
2009	\$ 14,900
2010	\$ 15,200

- b) The Company is committed to issue 120,000 common shares as a bonus pursuant to an employment agreement.

**9. RELATED PARTY TRANSACTIONS**

As at March 31, 2005, an amount of \$4,842 (March 31, 2004 - \$147,616) is payable to directors and officers of the Company.

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**9. RELATED PARTY TRANSACTIONS** (Continued)

- b) The Company incurred the following transactions with directors, officers and a company with a common director:

	<u>2005</u>	<u>2004</u>
Administrative services	\$ 18,142	\$ 10,029
Management fees	64,196	111,855
Salaries and wages	98,197	-
Consulting fees	49,194	24,123
Legal fees	14,913	-
Rent	11,273	10,067
	<u>\$ 255,915</u>	<u>\$ 156,074</u>

**10. SUBSEQUENT EVENTS**

- a) On April 11, 2005, the Company issued 17,778 common shares for stock options exercised at a price of CDN\$0.90.
- b) On April 19, 2005, the Company granted stock options to a consultant, to purchase 50,000 common shares at a price of CDN\$0.72 until April 19, 2010.
- c) On May 5, 2005, the Company entered into two 10 megawatt ("MW") Power Purchase Agreements ("PPA's") for the electrical output from the Raft River Geothermal Power Property. Under terms of the PPA's, the Company will receive payments for power generated under a price schedule that starts at \$53.90 per MW and increases 2.3% annually to a maximum of \$85.04 per MW over the 20 year term of the contract.