

**U.S. Geothermal Inc.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2006**

**U.S. Geothermal Inc.**

**March 31, 2006**

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Board of Directors  
U.S. Geothermal Inc.  
Boise, Idaho

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have audited the accompanying consolidated balance sheet of U.S. Geothermal Inc. (an exploration stage company) as of March 31, 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended and for the period from February 26, 2002 (inception) through March 31, 2006. 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 audit. The financial statements of U.S. Geothermal Inc. as of March 31, 2005 were audited by other auditors whose report dated June 16, 2005 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of U.S. Geothermal Inc. as of March 31, 2006 and the results of its operations, stockholders' equity, and cash flows for the year then ended and for the period from February 26, 2002 (inception) through March 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

Williams & Webster, P.S.  
*Certified Public Accountants*  
Spokane, Washington  
June 23, 2006

**U.S. GEOTHERMAL INC.**  
(A Development Stage Company)  
**CONSOLIDATED BALANCE SHEETS**  
(Stated in U.S. Dollars)

	March 31, 2006	March 31, 2005
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 196,499	\$ 1,957,075
Restricted cash (see Note 10)	19,961,890	0
Refundable tax credit	4,703	3,095
Prepaid expenses and other	6,726	29,099
Total Current Assets	<u>20,169,818</u>	1,989,269
Property, Plant and Equipment (see Note 4)	<u>1,726,115</u>	595,701
Total Assets	<u>\$ 21,895,933</u>	<u>\$ 2,584,970</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 270,831	\$ 160,260
Related party accounts payable	10,083	4,842
Total Current Liabilities	<u>280,914</u>	165,102
<b>STOCKHOLDERS' EQUITY</b>		
<b>Capital stock</b>		
Authorized:		
100,000,000 common shares with a \$0.001 par value		
Issued and Outstanding:		
18,263,844 shares at March 31, 2006 and	18,264	17,332
17,331,429 shares at March 31, 2005		
<b>Capital stock issuable</b>	<b>20,134,260</b>	<b>0</b>
<b>Additional paid-in capital</b>	<b>5,338,200</b>	<b>3,485,642</b>
<b>Stock purchase warrants</b>	<b>1,324,038</b>	<b>2,460,782</b>
<b>Accumulated other comprehensive income</b>	<b>32,792</b>	<b>165,262</b>
<b>Accumulated deficit before development stage</b>	<b>(1,037,422)</b>	<b>(1,037,422)</b>
<b>Accumulated deficit during development stage</b>	<b>(4,195,113)</b>	<b>(2,671,728)</b>
Total Stockholders' Equity	<u>21,615,019</u>	2,419,868
Total Liabilities and Stockholders' Equity	<u>\$ 21,895,933</u>	<u>\$ 2,584,970</u>

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)**

	YEAR ENDED MARCH 31		CUMULATIVE PERIOD FROM FEB. 26, 2002
	2006	2005	TO MAR. 31, 2006
<b>Revenue</b>	\$ -	\$ -	\$ -
<b>Operating Expenses</b>			
Consulting fees	54,513	489,747	908,465
Administrative and development costs	185,186	118,098	326,071
Exploration expenditures	-	438,885	440,611
Professional fees	386,275	321,081	963,991
Management fees	36,415	86,463	288,733
Salaries and wages	639,927	207,759	847,686
Travel and promotion	360,753	89,497	474,518
<b>Loss from Operations</b>	<b>(1,663,069)</b>	<b>(1,751,530)</b>	<b>(4,250,075)</b>
<b>Other Income (Expense)</b>			
Foreign exchange gain (loss)	116,408	(95,885)	11,269
Interest income	23,276	16,994	43,693
<b>Loss Before Income Taxes</b>	<b>(1,523,385)</b>	<b>(1,830,421)</b>	<b>(4,195,113)</b>
<b>Income Taxes</b> (see Note 2g)	-	-	-
<b>Net Loss</b>	<b>\$ (1,523,385)</b>	<b>(1,830,421)</b>	<b>\$ (4,195,113)</b>
<b>Basic And Diluted Net Loss Per Share</b>	<b>\$ (0.09)</b>	<b>\$ (0.12)</b>	
<b>Weighted Average Number Of Shares Outstanding for Basic and Diluted Calculations</b>	<b>17,797,637</b>	<b>15,209,468</b>	
<b>Other Comprehensive Income (Loss)</b>			
Net loss for the period	\$ (1,523,385)	\$ (1,830,421)	\$ (4,195,113)
Foreign currency translation adjustment	(132,470)	165,262	32,792
<b>Total Comprehensive Loss</b>	<b>\$ (1,655,855)</b>	<b>(1,665,159)</b>	<b>\$ (4,162,321)</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)

	YEAR ENDED		FROM FEB. 26, 2002 TO MAR. 31, 2006
	March 31		
	2006	2005	
<b>Operating Activities</b>			
Net loss for the period	\$ (1,523,385)	\$ (1,830,421)	\$ (4,195,113)
Add: Non-cash items:			
Depreciation	1,350		3,325
Shares issued for other than cash	-		49,600
Stock based compensation	180,779	295,540	772,400
Change in non-cash working capital items:			
Accounts payable and accrued liabilities	115,812	(20,363)	34,770
Prepaid expenses	22,373	(29,099)	(6,726)
Refundable tax credit and grant receivable	(1,608)	4,805	1,115
Total Cash Used by Operating Activities	(1,204,679)	(1,578,139)	(3,340,629)
<b>Investing Activities</b>			
Purchases of property, plant and equipment	(1,131,764)	(41,331)	(1,652,089)
Cash acquired on business combination	-	-	5,798
Total Cash Provided (Used) by Investing Activities	(1,131,764)	(41,331)	(1,646,291)
<b>Financing Activities</b>			
Issuance of share capital, net of share issue cost	708,337	2,576,562	5,150,627
Total Cash Provided by Financing Activities	708,337	2,576,562	5,150,627
<b>Foreign Exchange Effect On Cash And Cash Equivalents</b>			
	(132,470)	129,470	32,792
<b>Increase (Decrease) In Cash And Cash Equivalents</b>	<b>(1,760,576)</b>	<b>1,086,562</b>	<b>196,499</b>
<b>Cash And Cash Equivalents, Beginning Of Period</b>	<b>1,957,075</b>	<b>870,513</b>	<b>-</b>
<b>Cash And Cash Equivalents, End Of Period</b>	<b>\$ 196,499</b>	<b>\$ 1,957,075</b>	<b>\$ 196,499</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 (CONTINUED)**  
**(Stated in U.S. Dollars)**

	YEAR ENDED		FROM	
	MARCH 31		FEB. 26, 2002	
	2006	2005	TO MAR. 31, 2006	
<b>Supplemental Disclosure</b>				
Taxes paid	\$	\$	-	\$ -
Interest paid	-		-	-
Non-cash investing and financing activities				
Shares issued for settlement of debt	-		-	173,639
Shares issued for professional services	-		-	49,600
Shares issued for geothermal property	-		-	77,350
Warrants issued for share issue cost	-		-	158,778

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

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

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**FROM INCEPTION, FEBRUARY 26, 2002, TO MARCH 31, 2006**

(Stated in U.S. Dollars)

	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	CAPITAL STOCK ISSUABLE	STOCK PURCHASE WARRANTS	ACCUM. OTHER INCOME	ACCUM. DEFICIT	TOTAL
Shares issued for cash at \$0.015 per share – February 26, 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	395,000	395	98,355	-	-	-	-	98,750
Shares issued for services at \$0.25 per share – May 28, 2002	5,000	5	1,245	-	-	-	-	1,250
Shares issued for cash at \$0.30 per share – November 1, 2002	1,023,667	1,024	306,076	-	-	-	-	307,100
Shares issued for services at \$0.30 per share – November 1, 2002	10,000	10	2,990	-	-	-	-	3,000
Shares issued for services at \$0.30 per share – February 14, 2003	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.**  
**(A Development Stage Company)**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Continued)**

FROM INCEPTION, FEBRUARY 26, 2002, TO MARCH 31, 2006  
(Stated in U.S. Dollars)

	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	CAPITAL STOCK ISSUABLE	STOCK PURCHASE WARRANTS	ACCUM. OTHER INCOME	ACCUM. DEFICIT	TOTAL
Balance carried 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	(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	2,274,616	2,275	(2,275)	-	-	-	-	-
Shares issued for acquisition of U.S. Geothermal Inc.- Idaho	6,939,992	6,940	(6,940)	-	-	-	(408,166)	(408,166)
Warrants issued for acquisition of U.S. Geothermal Inc.- Idaho	-	-	-	-	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 \$75,122 paid in cash and \$25,437 paid by issuance of 83,333 agent's warrants- December 19, 2003	3,322,221	3,322	959,230	-	457,326	-	-	1,419,878
Shares and warrants issued for conversion of notes at \$0.45 per share – February 20, 2004	385,864	386	123,090	-	50,162	-	-	173,638
Stock options granted	-	-	296,081	-	-	-	-	296,081
Foreign currency translation gain	-	-	-	-	-	35,792	-	35,792
Net loss for the year	-	-	-	-	-	-	(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.**  
(A Development Stage Company)

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Continued)**

FROM INCEPTION, FEBRUARY 26, 2002, TO MARCH 31, 2006  
(Stated in U.S. Dollars)

	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	CAPITAL STOCK ISSUABLE	STOCK PURCHASE WARRANTS	ACCUM. OTHER INCOME	ACCUM. DEFICIT	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 \$225,131 paid in cash and \$133,341 paid by the issuance of 280,000 agent's warrants- September 17, 2004	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	100,000	100	60,251	-	-	-	-	60,351
Shares issued for stock options exercised	308,735	309	145,133	-	-	-	-	145,442
Stock options granted	-	-	295,540	-	-	-	-	295,540
Foreign currency translation gain	-	-	-	-	-	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
Stock options granted	-	-	180,780	-	-	-	-	180,780
Expiration of stock purchase warrants	-	-	1,061,145	-	(1,061,145)	-	-	-
Shares issued for stock options and warrants exercised	932,415	932	610,633	-	(75,599)	-	-	535,966
Foreign currency translation loss	-	-	-	-	-	(132,470)	-	(132,470)
Capital stock issuable as result of a private placement to be closed April 3, 2006	-	-	-	20,134,260	-	-	-	20,134,260
Net loss for the year	-	-	-	-	-	-	(1,523,385)	(1,523,385)
Balance, March 31, 2006	18,263,844	\$ 18,264	\$ 5,338,200	\$ 20,134,260	\$ 1,324,038	\$ 32,792	\$ (5,232,535)	\$ 21,615,019

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2006**  
(Stated in U.S. Dollars)

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**NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN**

a) Organization

When U.S. Cobalt Inc. (“GTH” or the “Company”) completed a reverse take-over on December 19, 2003, 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 (Note 3). 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 entered into an agreement with the previous owner, pursuant to which the Company has acquired a 100% interest in the Raft River Geothermal Property located in Cassia County, Idaho (Note 4).

c) Going Concern

Based on the Company’s projected spending over the next 12 months and the \$20,134,260 cash received from the private placement completed April 3, 2006, the Company’s auditors have removed the going concern qualification from the Company’s financial statements. 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 for construction of the phase one power plant. As shown in the accompanying consolidated financial statements, the Company has incurred an accumulated deficit of \$5,232,535 for the period from February 26, 2002 (inception) to March 31, 2006, and has no revenue from operations.

**NOTE 2- ACCOUNTING POLICIES**

a) Basis of Presentation

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

- U.S. Geothermal Inc. (incorporated in the State of Delaware);
- U.S. Geothermal Inc. (incorporated in the State of Idaho);
- U.S. Cobalt Inc. (incorporated in the State of Colorado);
- Raft River Energy I LLC (incorporated in the State of Delaware);
- US Geothermal Services, LLC (incorporated in the State of Delaware).

All inter-group transactions are eliminated on consolidation.

#### b) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions and could have a material effect on the reported amounts of the Company's financial position and results of operations.

#### c) Recent Accounting Pronouncements

In March 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140." This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations: a transfer of the servicer's financial assets that meets the requirements for sale accounting; a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities; or an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. The statement also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable and permits an entity to choose either the amortization or fair value method for subsequent measurement of each class of servicing assets and liabilities. The statement further permits, at its initial adoption, a one-time reclassification of available for sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available for sale securities under Statement 115, provided that the available for sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer

elects to subsequently measure at fair value and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management believes the adoption of this statement will have no impact on the Company's financial condition or results of operations.

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections," (hereinafter SFAS No. 154") which replaces Accounting Principles Board Opinion No. 20, accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements – An Amendment of APB Opinion No. 28". SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principle and error corrections. SFAS No. 154 requires that changes in accounting principle be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. Management does not expect SFAS No. 154 to have a material impact on the Company's financial position, results of operations, or cash flows.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 153. This statement addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that opinion, however, included certain exceptions to that principle. This statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date of this statement is issued. Management believes the adoption of this statement had no impact on the financial statements of the Company at December 31, 2005 and 2004.

In December 2004, the Financial Accounting Standards Board issued a revision to Statement of Financial Accounting Standards No. 123R, "Accounting for Stock Based Compensation." This statement supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in

which an entity obtains employee services in share-based payment transactions. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in Statement of Financial Accounting Standards No. 123. This statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." The Company has not yet determined the impact to its financial statements from the adoption of this statement.

d) 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.

e) 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%.

f) 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.

g) 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. Potential benefits of net operating losses have 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.

The significant components of the deferred tax asset at March 31, 2006 and March 31, 2005 were as follows:

		March 31, 2006		March 31, 2005
Net operating loss carryforward	\$	<u>5,196,418</u>	\$	<u>3,541,913</u>
Deferred tax asset:	\$	1,767,000	\$	1,204,000
Less valuation allowance for tax asset		<u>-1,767,000</u>		<u>-1,204,000</u>
Net deferred tax asset	\$	<u>-</u>	\$	<u>-</u>

At March 31, 2006 and March 31, 2005, the Company has net operating loss carryforwards of approximately \$5,196,418 and \$3,541,913 respectively, which expire in the years 2023 through 2025. The change in the allowance account from March 31, 2005 to March 31, 2006 was \$563,000.

#### h) Financial Instruments

The Company's financial instruments consist of cash and cash 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.

#### i) 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. As the Company generated net losses in each of the periods presented, the basic and dilutive loss per share is the same, as any exercise of options or warrants would be anti-dilutive.

#### j) Foreign Currency Translation

The Company's functional currency is the U.S. dollar. Transactions in foreign currency are converted into U.S. dollars using the current method as follows:

- Monetary items at the rate prevailing at the balance sheet date;
- Non-monetary items at the historical exchange rate;
- Revenue and expenses at the average rate in effect during the applicable accounting period.

Adjustments arising from the translation of the foreign currency amounts are included as a separate component of stockholders' equity.

### k) Asset Retirement Obligations

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 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.

### NOTE 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 2,150,309 common shares and no share purchase warrants were held in escrow as at December 31, 2005 (as at March 31, 2005, 4,243,325 common shares and 1,946,937 share purchase warrants were held in escrow). Each share purchase warrant entitled the holder to purchase one additional common share at a price of \$0.75 per share until December 19, 2005. As of December 31, 2005, the 2,420,217 stock purchase warrants noted above have expired without exercise. 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.

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. 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 have been charged to accumulated deficit.

### NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

GEO - Idaho entered into an agreement, as amended December 3, 2002, with the previous owner to purchase up to a 100% interest in the Raft River Geothermal Property (“the Property”) located in Cassia County, Idaho, in exchange for 1,895,000 shares (the “old shares”), 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) for shares and warrants of the Company.

As of March 31, 2006, the Company has acquired a 100% interest in the Property by making cash payments totalling \$250,000 in 2003, \$225,000 in 2004 and \$125,000 in 2005. The Company has also completed the requisite work program. In addition, the Company has paid \$57,728 to acquire two purchase options on 1,083 acres of surface and water rights, and paid \$949,036 to initiate construction of the Raft River Project.

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 valued at \$60,351.

Property, plant and equipment consisted of the following at the dates shown:

	<b>March 31, 2006</b>	March 31, 2005
Geothermal property (land and equipment)		
Balance, beginning of period	<b>\$ 592,351</b>	\$ 492,000
Shares issued	-	60,351
Cash payments	<b>182,728</b>	40,000
Balance, end of period	<b>775,079</b>	592,351
Construction in Process- Raft River Project		
Balance, beginning of period	-	-
Power Plant One	<b>565,459</b>	-
Transmission Lines and Substation	<b>139,193</b>	-
Pipelines	<b>78,478</b>	-
Well Drilling	<b>165,906</b>	-
Balance, end of period	<b>949,036</b>	-
Other equipment		
Balance, beginning of period	<b>5,325</b>	3,994
Acquisitions	-	1,331
Balance, end of period	<b>5,325</b>	5,325
Less: Accumulated depreciation	<b>(3,325)</b>	(1,975)
Net balance, end of period	<b>2,000</b>	3,350
	<b>\$ 1,726,115</b>	\$ 595,701

## NOTE 5 - CAPITAL STOCK

The Company is authorized to issue 1,000,000,000 shares of common stock. All shares have equal voting rights, are non-assessable and have one vote per share. Voting rights are not cumulative and, therefore, the holders of more than 50% of the common stock could, if they choose to do so, elect all of the directors of the Company.

On March 13, 2006, the Company issued 15,000 common shares upon the exercise of 15,000 options at an exercise price of \$0.60 CDN (\$0.51 U.S. as of March 13, 2006).

On February 17, 2006, the Company issued 192,934 common shares upon the exercise of 192,934 stock purchase warrants at an exercise price of \$0.75 U.S.

On February 9, 2006, the Company issued 25,000 common shares upon the exercise of 25,000 options at an exercise price of \$0.60 CDN (\$0.51 as of February 9, 2006).

On February 6, 2006, the Company issued 120,000 common shares as a signing bonus as part of an employment agreement at a deemed price of \$0.72 CDN (\$0.61 U.S. as of February 6, 2006).

On January 9, 2006, the Company issued 138,370 common shares upon the exercise of 138,370 options at an exercise price of \$0.60 CDN (\$0.51 U.S. as of January 9, 2006).

On January 3, 2006, the Company issued 200,000 common shares upon the exercise of 200,000 options at an exercise price of \$0.60 CDN (\$0.51 U.S. as of January 3, 2006).

On December 28, 2005, the Company issued 183,333 common shares upon the exercise of 100,000 options at an exercise price of \$0.60 CDN (\$0.51 U.S. as of December 28, 2005) and 83,333 purchase warrants at an exercise price of \$0.45 U.S.

On July 22, 2005, the Company issued 40,000 common shares upon the exercise of 40,000 options at an exercise price of \$0.60 CDN (\$0.51 U.S. as of July 22, 2005).

On April 11, 2005, the Company issued 17,778 common shares upon the exercise of 17,778 options at an exercise price of \$0.90 CDN (\$0.73 U.S. as of April 11, 2005).

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 adjacent to its Raft River Property valued at \$60,351.

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).

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).

In payment for services provided in connection with the private placement described below, the Company paid \$225,131 in cash and granted 280,000 agent's warrants exercisable at a price of \$0.85 CDN (\$0.72 U.S. as at September 30, 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.

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 share purchase warrant entitles the holder to purchase one additional common share at a price of \$1.25 CDN (\$1.06 U.S. as at September 30, 2005) per share until September 17, 2006. Should the closing price of the Company's common shares exceed \$1.65 CDN (\$1.40 U.S. as at September 30, 2005) per share for twenty consecutive trading days, the exercise date of the warrants may be accelerated to a date not earlier than twenty days following the date of the press release indicating the acceleration.

During the year ended March 31, 2004, the Company made cash payments totalling \$137,398 pursuant to the convertible notes described below. On February 20, 2004, the Company issued 385,864 units, at a value of \$0.45 per unit, on conversion of amounts due under the 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 has identical terms and conditions to the units issued in the December 2003 private placement described below, other than the expiration date of the warrants which expire on February 17, 2006.

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") described in Note 3. 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 GEO - Idaho 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 the 2,420,217 new warrants. Vulcan had 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 19, 2005. Concurrently with the

RTO, 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 19, 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 19, 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 RTO, 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 for such plant. 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.

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 identical in terms to the units described above, except with respect to the expiration date of the units, as described above. The notes carried an interest rate of 20%.

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.

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.

On May 28, 2002, the Company issued 395,000 common shares at a price of \$0.25 per share for cash proceeds of \$98,750 and issued 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.

#### Escrow Shares

The following common shares and share purchase warrants are in escrow at the dates shown:

	<b>March 31,</b>	March 31,
	<b>2006</b>	2005
Common shares	<b>2,150,309</b>	4,243,325
Share purchase warrants	<b>0</b>	1,946,937

The escrow shares and warrants are or were held in escrow pursuant to standard requirements of the TSX Venture Exchange, which required that 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). Shares are released from escrow at six month intervals, with the last release from escrow scheduled for December 19, 2006. All stock purchase warrants previously held in escrow expired as of December 31, 2005, without exercise.

## **NOTE 6 - STOCK -BASED COMPENSATION**

The Company's stock option plan provides for the grant of incentive stock options enabling the holders to purchase up to 2,584,000 common shares. The plan is for 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. Because the plan has historically been administered in Canada by Pacific Corporate Trust, the Company has issued stock options with an exercise price stated in Canadian dollars per share.

During the quarter ended June 30, 2005, the Company granted 50,000 stock options to a consultant exercisable at a price of \$0.72 CDN (\$0.61 USD as at December 31, 2005) until April 19, 2010.

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 (\$0.61 to \$0.77 USD as at December 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 (\$0.51 USD as at December 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 \$25,509 was included in consulting fees and \$155,271 was included in salaries and wages for the twelve months ended March 31, 2006 (March 31, 2005 - \$295,541).

The changes in stock options are as follows:

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<b>NUMBER SHARES UNDER OPTIONS</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>
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Balance outstanding, March 31, 2004	1,745,000	\$	0.60 CDN
Cancelled	(240,000)		0.60 CDN
Exercised	(308,735)		0.60 CDN
Granted	470,000		0.72 CDN
Granted	90,000		0.90 CDN
Balance outstanding March 31, 2005	1,756,265		0.65 CDN
Cancelled	(182,267)		0.60 CDN
Exercised	(518,370)		0.60 CDN
Granted	50,000		0.72 CDN
Exercised	(17,778)		0.90 CDN
Cancelled	(22,222)		0.90 CDN
Balance outstanding March 31, 2006	1,065,628	\$	0.67 CDN

The following table summarizes information about the number of shares under stock options outstanding and exercisable at March 31, 2006:

OPTIONS OUTSTANDING					OPTIONS EXERCISABLE
		MARCH 31, 2005	MARCH 31, 2006	REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SHARES
EXERCISE PRICE	NUMBER OF SHARES	NUMBER OF SHARES			
\$ 0.60 CDN	1,196,265	495,628	2.76	495,628	
0.72 CDN	470,000	520,000	3.67	390,000	
0.90 CDN	90,000	50,000	3.67	37,500	
\$ 0.67 CDN	1,756,265	1,065,628	3.25	923,128	

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.

#### Stock Purchase Warrants

As at March 31, 2006 (8,637,593 as at March 31, 2005), the following share purchase warrants are outstanding:

<b>WARRANTS ISSUED PURSUANT TO</b>	<b>EXERCISABLE INTO NUMBER OF COMMON SHARES</b>	<b>EXERCISE PRICE</b>	<b>EXPIRATION DATE</b>	<b>FAIR VALUE AT ISSUANCE</b>
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
	<u>4,280,001</u>			<u>\$1,324,038</u>

On February 17, 2006, stock purchase warrants representing 192,934 common shares at an exercise price of \$0.75 were exercised.

Effective December 19, 2005, stock purchase warrants representing 4,081,327 shares at an exercise price of \$0.75 expired without exercise, while 83,333 stock purchase warrants at an exercise price of \$0.45 were exercised.

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

	<u>2005</u>	<u>2004</u>
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

#### **NOTE 7 - RELATED PARTY TRANSACTIONS**

As at March 31, 2006 and March 31, 2005, the amounts of \$10,083 and \$4,842 are payable to directors and officers of the Company. These amounts are unsecured and due on demand.

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

	<b>12 Months</b>	12 Months
	<b>March 31,</b>	March 31,
	<b>2006</b>	2005
Administrative services	\$ 19,584	\$ 18,142
Management fees	21,500	64,196
Consulting fees	24,960	49,194
Legal fees	871	14,913
Rent	13,863	11,273
	<b>\$ 80,778</b>	<b>\$ 157,718</b>

#### **NOTE 8 - DIFFERENCES BETWEEN CANADIAN AND U.S. GAAP**

The Company's consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The material difference in respect to these financial statements between U.S. and Canadian GAAP is reflected in the recording of Property, Plant and Equipment. Under Canadian GAAP, development and exploration costs associated with the Raft River project (property lease payments, geological consulting fees, well monitoring and permitting, etc.) are recorded as a capital asset. Under U.S. GAAP, these amounts are expensed. As a result of the above, under Canadian GAAP the following line items in the consolidated balance sheets and income statements would have been presented as follows:

<b>Consolidated Balance Sheets</b>	<b>U.S. GAAP March 31, 2006</b>	<b>Canadian GAAP March 31, 2006</b>	<b>U.S. GAAP March 31, 2005</b>	<b>Canadian GAAP March 31, 2005</b>
Plant, Property & Equipment	\$ 1,726,115	\$ 2,166,726	\$ 595,701	\$ 1,054,199
Total Assets	21,895,933	22,336,544	2,584,970	3,043,468
Stockholder's Equity	21,615,019	22,055,630	2,419,868	2,878,366
Total Liabilities & Stockholder's Equity	21,895,933	22,336,544	2,584,970	3,043,468

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<b>Consolidated Statements of Operations and Comprehensive Loss</b>	<b>U.S. GAAP Twelve Months ended March 31, 2006</b>	<b>Canadian GAAP Twelve Months ended March 31, 2006</b>	<b>U.S. GAAP Twelve Months ended March 31, 2005</b>	<b>Canadian GAAP Twelve Months ended March 31, 2005</b>
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Exploration Expenditures	\$ 0	\$ 0	\$ 438,885	\$ 0
Loss from Operations	(1,663,069)	(1,607,755)	(1,751,530)	(1,312,645)
Net Loss	(1,523,385)	(1,468,071)	(1,830,421)	(1,391,536)

## NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Company has entered into 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 fiscal years:

2006	\$ 28,850
2007	\$ 20,100
2008	\$ 20,400
2009	\$ 20,800
2010	\$ 23,800

The Company has signed a 10 MW power purchase agreement with Idaho Power Company for sale of power generated from its planned phase one power plant. Sale of power generated from phase two power plants are currently under discussion. The Company has also signed a transmission agreement with Bonneville Power Administration for transmission of the electricity from this plant to Idaho Power, and from the phase two plants to other purchasers. These agreements are all contingent upon successful financing and construction of the power plant at Raft River.

On December 5, 2005, the Company signed a contract with Ormat Nevada, Inc. (Ormat) for Ormat to construct a 13 MW geothermal power plant at Raft River, Idaho for a lump sum price of \$20,200,000 (exclusive of taxes). The Company expects the output of the plant will be used to meet power delivery requirements of the Company's agreements with Idaho Power Company.

On April 3, 2006, the Company completed a private placement of 25,000,000 common shares at a price of \$1.00 CDN (\$0.86 U.S. as of April 3, 2006). Proceeds, net of financing fees, totaled \$20,134,260. Of the net proceeds, \$172,370 had been received in the Company's bank accounts prior to year end. Since the subscription forms reflected a March 30, 2006 date, and the remainder of the cash was on deposit with Dundee Securities, the private placement was recorded as "Restricted Cash" and as "Capital Stock Issuable" in these financial statements. Upon the issuance of the common shares on April 3, 2006, all cash restrictions were lifted.

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We lease general office space for our executive office in Boise at an annual cost of \$30,506. The underlying lease is a year-to-year lease that expires on January 31, 2007.

## NOTE 10- SUBSEQUENT EVENTS

On April 3, 2006, the Company completed a private placement of 25,000,000 common shares at a price of \$1.00 CDN (\$0.86 U.S. as of April 3, 2006). Proceeds, net of financing fees, totaled

\$20,134,260. Of the net proceeds, \$172,370 had been received in the Company's bank accounts. Since the subscription forms reflected a March 30, 2006 date, and the remainder of the cash was on deposit with Dundee Securities, the private placement was reflected as Restricted Cash and as Capital Stock Issuable in these financial statements. Upon the issuance of the common shares on April 3, 2006, all cash restrictions were lifted.

On April 27, 2006, the Company and Ormat amended the contract to construct the phase one geothermal power plant in order to allow commencement of construction in advance of project financing. In connection with the amendment, the Company issued a Notice to Proceed to Ormat, which commissioned them to immediately proceed with final detailed engineering and place orders for long-lead time equipment and material components. This schedule is intended to provide first synchronization of the phase one power plant in September 2007 with full commercial operations no later than November 2007.