

U.S. GEOTHERMAL INC.
(Formerly U.S. Cobalt Inc.)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)

SEPTEMBER 30, 2004

U.S. GEOTHERMAL INC.
(Formerly U.S. Cobalt Inc.)

INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited – Prepared by Management)
(Stated in U.S. Dollars)

	September 30	March 31
	2004	2004
ASSETS		
Current		
Cash and cash equivalents	\$ 2,605,722	\$ 870,513
Refundable tax credit	8,856	7,900
Grants receivable	198,149	-
Prepaid expenses	21,221	-
	2,833,948	878,413
Raft River Geothermal Property (Note 4)	630,853	527,440
Office Equipment	3,060	3,418
	\$ 3,467,861	\$ 1,409,271
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 250,349	\$ 185,465
SHAREHOLDERS' EQUITY		
Common Shares		
Authorized:		
100,000,000 common shares with a \$0.001 par value		
Issued:		
16,922,694 shares at September 30, 2004	\$ 16,923	\$ 12,923
Additional Paid-In Capital	4,634,816	2,148,787
Deficit	(1,434,227)	(937,904)
	3,217,512	1,223,806
	\$ 3,467,861	\$ 1,409,271
Approved on behalf of the Board:	"Doug Glaspey"	"Paul Larkin"
	Director	Director

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	Three months ended Sept. 30, 2004	Three months ended Sept. 30, 2003	Six months ended Sept. 30, 2004	Six months ended Sept. 30, 2003
Expenses				
Consulting fees	\$ 61,416	\$ 5,000	\$ 108,703	\$ (12,651)
Corporate administration and development	27,688	3,314	47,233	14,738
Professional fees	119,738	284	158,113	399
Management fees	31,968	3,000	55,041	11,000
Geothermal Review	15,000	-	15,000	-
Travel and promotion	27,160	1,187	45,725	3,042
Stock based compensation	58,002	-	58,002	-
Loss Before The Following	340,972	12,785	487,817	16,527
Gain/(loss) On Foreign Exchange	(10,769)	-	(11,320)	-
Interest Income	831	-	2,814	-
Net Loss For The Period	350,910	12,785	496,323	16,527
Deficit, Beginning Of Period	1,083,317	151,353	937,904	147,610
Deficit, End Of Period	\$ 1,434,227	\$ 164,138	\$ 1,434,227	\$ 164,138
Basic And Diluted Loss Per Share	\$ (0.03)	\$ (0.00)	\$ (0.04)	\$ (0.00)
Weighted Average Number Of Shares Outstanding	13,531,389	6,079,837	13,531,389	6,079,837

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	Three months ended Sept. 30, 2004	Three months ended Sept. 30, 2003	Six months ended Sept. 30, 2004	Six months ended Sept. 30, 2003
Operating Activities				
Net loss for the year	\$ (350,910)	\$ (12,785)	\$ (496,323)	\$ (16,527)
Add Non-cash items:				
Change in non-cash working capital items:				
Prepaid expenses	(10,870)	-	(21,221)	-
Accounts payable and accrued liabilities	(42,047)	41,924	64,884	38,074
Depreciation	248	-	358	-
Grants receivable	8,083	-	(198,149)	-
Refundable tax credit	(7,116)	-	(956)	(15,000)
	<u>(51,702)</u>	41,924	<u>(155,084)</u>	23,074
Investing Activities				
Raft River Geothermal Property	<u>163,394</u>	(38,863)	<u>(103,413)</u>	(115,943)
Financing Activities				
Loan Payable	-	-	-	81,500
Issuance of shares, private placement	4,000	-	4,000	-
Additional Paid-In Capital, private placement	<u>2,486,029</u>	-	<u>2,486,029</u>	-
	<u>2,490,029</u>	-	<u>2,490,029</u>	81,500
Increase (Decrease) In Cash And Cash Equivalents	\$ 2,250,811	\$ (9,724)	\$ 1,735,209	\$ (27,896)
Cash And Cash Equivalents, Beginning Of Period	<u>354,911</u>	11,557	<u>870,513</u>	<u>29,729</u>
Cash And Cash Equivalents, End Of Period	<u><u>\$ 2,605,722</u></u>	<u>1,833</u>	<u><u>\$ 2,605,722</u></u>	<u>1,833</u>

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

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1. NATURE OF OPERATIONS AND GOING CONCERN

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 shareholders of U.S. Geothermal Inc. (“GEO-Idaho”) a company incorporated on February 20, 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 shares 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.

GEO-Idaho is the operating subsidiary, which 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 a 100% interest in the Raft River Geothermal Property located in Cassia County, Idaho, U.S.A. (Note 4).

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. The Company is in the process of exploring 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 and related deferred costs 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. 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 Canada. 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).

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

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2. ACCOUNTING POLICIES (Continued)

b) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c) Geothermal Properties

Costs of acquisition and exploration 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.

d) Office Equipment

Office equipment is recorded at cost. Amortization of office equipment is calculated on a 30% straight line basis.

e) Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

f) Stock Based Compensation

The Company accounts for all stock options granted to non-employees using the fair value based method of accounting. In respect of stock options granted to employees and directors, the Company has elected to adopt the intrinsic value-based method of accounting, which recognizes compensation expense only when the market price exceeds the exercise price at the date of grant, but which requires pro forma disclosure of net loss as if these grants were accounted for using the fair value method. Consideration paid on the exercise of stock options is recorded as an increase to share capital.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

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2. ACCOUNTING POLICIES (Continued)

f) Stock Based Compensation (Continued)

In 2003, the CICA amended the Handbook Section 3870 – “Stock Based Compensation and Other Stock Based Payments”.

Under this amended standard, the Company must account for compensation expense based on the fair value of rights granted under its stock based compensation plan. Under this method, compensation costs attributable to stock options granted to employees or directors is measured at fair value at the grant date, and expensed over the expected exercise time frame with a corresponding increase to contributed surplus. The Company has elected to adopt Section 3870 effective April 1, 2004 on a retroactive basis. The impact in 2004 and 2003 upon adoption is reflected in the pro-forma stock based compensation disclosures (Note 6).

g) Financial Instruments

The Company’s financial instruments consist of cash and equivalents, Goods and Services Tax recoverable, due from affiliated company, 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.

h) Loss Per Share

Basic and diluted loss per share amounts are computed using the weighted average number of common shares outstanding during the year.

The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only instruments with exercise amounts less than market prices impact the diluted calculations. In computing diluted loss per share, no shares were added to the weighted average number of common shares outstanding during the years ended March 31, 2004 and 2003 for the dilutive effect of employee stock options and warrants as they were all anti-dilutive. No adjustments were required to reported loss from operations in computing diluted per share amounts.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

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2. ACCOUNTING POLICIES (Continued)

i) Foreign Currency Translation

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

- i) monetary items at the rate prevailing at the balance sheet date;
- ii) non-monetary items at the historical exchange rate;
- iii) revenue and expense at the average rate in effect during the applicable accounting period.

Foreign currency translation gains or losses are included in the consolidated statements of operations and deficit.

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. 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 23, 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 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>

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

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4. RIVER RAFT GEOTHERMAL PROPERTY

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 a 100% interest in the Raft River Geothermal Property (“the Property”) located in Cassia County, Idaho, U.S.A.

As at September 30, 2004, the Company has acquired a 75% interest in the Property as successor to GEO-Idaho, which had issued to Vulcan Power Company, 1,895,000 shares and 1,612,000 warrants of GEO-Idaho (which were exchanged for 1,755,156 shares and 2,420,217 warrants of the Company as described in Note 3), and had agreed to make cash payments totalling \$475,000, and to complete a work program of \$200,000.

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.

5. SHARE CAPITAL

a) Private Placement

- i) 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 30, 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 (\$0.98 U.S. as at September 30, 2004) per share until September 17, 2006. Should the closing price of the Company’s common shares exceed \$1.65 CDN (\$1.29 U.S. as at September 30, 2004) 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 \$185,938 in cash and granted 280,000 agent’s warrants exercisable at a price of \$0.85 CDN (\$0.66 U.S. as at September 30, 2004) 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 share issue cost.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

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5. SHARE CAPITAL (Continued)

ii) On December 19, 2003, 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. In payment for services provided in connection with the private placement, the Company issued 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 fair value of \$25,437 as calculated by the Black-Scholes model was recorded as share issue cost. 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) a license from the permitting authorities for a 10 megawatt power plant; and (ii) power purchase and transmission agreements.

b) Escrow Shares

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

	SEPTEMBER 30 2004
Common shares	5,335,017
Share purchase warrants	2,231,829

c) Stock Purchase Warrants

As at September 30, 2004, the following share purchase warrants are outstanding:

WARRANTS ISSUED PURSUANT TO	EXERCISABLE INTO NUMBER OF COMMON SHARES	EXERCISE PRICE	EXPIRY DATE
Private placement	1,661,110	\$0.75	December 15, 2005
Acquisition of U.S. Geothermal – Idaho Inc.	2,420,217	\$0.75	December 15, 2005
Agent's warrants	83,333	\$0.45	December 15, 2005
Conversion of notes	192,932	\$0.75	February 17, 2006
Private placement	4,000,001	\$1.25 CDN	September 17, 2006
Agent's warrants	280,000	\$0.85 CDN	September 17, 2006
Agent's warrants	280,000	\$1.25 CDN	September 17, 2006
	8,917,593		

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SEPTEMBER 30, 2004

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6. STOCK OPTIONS OUTSTANDING

The Company's 2004 stock option plan provides for the grant of incentive stock options for up to 2,200,000 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, 2004, the Company granted 1,745,000 stock options to consultants, directors and officers exercisable at a price of \$0.44 until January 3, 2009, of which 436,250 stock options vested by March 31, 2004. Compensation expense related to 436,250 stock options granted to consultants vested by September 30, 2004 (March 31, 2004 – 436,250) is recorded at their fair value as calculated by the Black-Scholes option pricing model of \$58,908 (March 31, 2004 - \$55,744) and is included in consulting fees. The remaining compensation expense of \$108,334 will be recognized over the vesting period.

The changes in stock options are as follows:

	NUMBER	EXERCISE PRICE
Balance outstanding, March 31, 2002 and 2003	-	\$ -
Granted	1,745,000	0.44
Balance outstanding, March 31, 2004	1,745,000	\$ 0.44
Granted	-	-
Balance outstanding, September 30, 2004	1,745,000	0.44

The following table summarizes information about the stock options outstanding at September 30, 2004:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE	NUMBER OF SHARES	REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SHARES	EXERCISE PRICE
\$ 0.44	1,745,000	4.51	436,250	\$ 0.44

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SEPTEMBER 30, 2004

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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:

	2004	2003
Statutory rates	35%	35%
Recovery of income taxes computed at statutory rates	\$ (133,745)	\$ (51,664)
Non-deductible items	19,510	-
Geothermal properties	(6,349)	(6,055)
Other	(12,527)	-
Tax benefit not recognized on current year's losses	133,111	57,719
	\$ -	\$ -

The tax effects of temporary timing differences that give rise to significant components of the future tax assets and future tax liabilities are as follows:

	2004	2003
Non-capital loss carry forward	\$ 191,000	\$ 58,000
Geothermal property	172,000	93,000
Less: Valuation allowance	(363,000)	(151,000)
Future income tax assets	\$ -	\$ -

At March 31, 2004, the Company had non-capital losses of approximately \$545,000, which may be carried forward to apply against future years' income for tax purposes expiring as follows:

2023	\$ 165,000
2024	\$ 380,000

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SEPTEMBER 30, 2004

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8. COMMITMENTS

The Company has entered into several lease agreements with terms expiring up to February 2014 for geothermal properties adjoining the Raft River Geothermal Property.

The leases provide for the following annual payments:

2005	\$ 17,700
2006	\$ 17,700
2007	\$ 17,700
2008	\$ 9,200
2009	\$ 9,300
2010	\$ 9,300
2011	\$ 9,300
2012	\$ 9,300
2013	\$ 300

9. RELATED PARTY TRANSACTIONS

a) As at September 30, 2004, an amount of \$140,647 (March 31, 2004 - \$147,616; 2003 - \$33,269) is payable to directors and officers of the Company. Subsequent to September 30, 2004, the Company paid \$130,657 of the balance outstanding.

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

	SEPTEMBER 30	MARCH 31	
	2004	2004	2003
Management fees	\$ 70,041	\$ 111,855	\$ 44,000
Consulting fees	14,140	24,123	10,000
Administrative services	8,862	10,029	-
Rent	5,530	10,067	622
	\$ 98,573	\$ 156,074	\$ 54,622

U.S. GEOTHERMAL INC.

www.usgeothermal.com

Management Discussion and Analysis

For the 2nd Quarter Ended September 30, 2004

U. S. Geothermal Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Stated in U. S. Dollars)

INTRODUCTION

The management's discussion and analysis ("MD&A") provides a detailed analysis of the financial condition and results of operations of U.S. Geothermal Inc. (formerly U. S. Cobalt Inc. and hereinafter referred to as "GTH") and compares the three month period ended September 30, 2004 financial results with those of the same period a year earlier. The MD&A should be read in conjunction with GTH's interim Financial Statements and related notes for the three months ended September 30, 2004, which have been prepared in accordance with generally accepted accounting principles in Canada.

Additional information about GTH is available at www.sedar.com.

FORWARD LOOKING STATEMENTS

GTH is currently in the process of filing a registration statement with the Securities and Exchange Commission. An amended SB-2 was submitted on November 9, 2004.

Except for statements of historical fact relating to GTH, certain information contained herein constitutes forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Forward-looking statements include, but are not limited to, statements concerning estimates of expected capital expenditures, statements relating to expected future production and cash flows, statements relating to the continued advancement of GTH's exploration, and development projects, and other statements which are not historical facts. When used in this document, the words such as "could", "plan", "estimate", "expect", "intend", "may", "potential", "should", and similar expressions are forward-looking statements. Although GTH believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Important factors that can cause actual results to differ from these forward-looking statements include the potential that GTH's projects will experience technological and mechanical problems, geological conditions in the geothermal deposits may not result in commercial levels of electrical power generation, changes in wholesale power prices, changes in political conditions, changes in the availability to obtain project financings and other risks. Forward-looking statements are based on the opinions and estimates of management at the date that the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in forward-looking statements. GTH undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

INDEX

	<u>Page</u>
1.1 Date	4
1.2 Overall Performance	4
1.3 Results of Operations	5
1.4 Summary of Quarterly Results	6
1.5 Liquidity	6
1.6 Capital Resources	7
1.7 Off-Balance Sheet Transactions	7
1.8 Transactions with Related Parties	7
1.9 Risk Factors	7
1.10 Proposed Transactions	12
1.11 Changes in Accounting Policies	13
1.12 Financial Instruments	13
1.13 Other Information	13

NOTE: All financial information, unless otherwise disclosed, is stated in U.S. dollars.

(Stated in U. S. Dollars)

1.1 Date

The effective date of this MD&A is November 26, 2004.

1.2 Overall Performance

U.S. Geothermal Inc. is a Delaware corporation. The Company's shares of common stock trade on the TSX Venture Exchange under the symbol "GTH". On December 19, 2003, the Company acquired all of the outstanding securities of U.S. Geothermal, Inc., an Idaho corporation ("Geo-Idaho") incorporated in February 2002, through a transaction merging Geo-Idaho into Evergreen Power Inc., a wholly-owned Idaho subsidiary formed for purposes of the merger transaction. Following the merger, the Company changed its name from U.S. Cobalt Inc. to U.S. Geothermal Inc. Pursuant to the merger, Geo-Idaho became a wholly owned subsidiary of the Company. GTH is still a development stage company and has produced no revenues to date.

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.

During the three months ended September 30, 2004, GTH was focused on (1) the completion of the extended well testing program at Raft River. The data collected was utilized by GeothermEx Inc. to complete an independent productivity assessment that concluded that four wells have an initial capacity of 138 megawatts; (2) the procurement of a power purchase agreement, (3) closing the Dundee private placement for \$3.4 million (Cdn \$) and (4) evaluation of acquisitions.

On September 17, 2004 Dundee Securities Corporation and GTH completed the private placement of 4,000,001 units of GTH at a price of \$0.85 (Cdn \$) for gross proceeds of \$3.4 million. Each unit consists of one common share and one share purchase warrant which entitles the holder to purchase one common share at an exercise price of \$1.25 (Cdn \$) per share for a period of two years. The warrants have an acceleration feature such that, if the closing price of GTH's common shares exceeds \$1.65 for 20 consecutive days after September 17, 2004 GTH may issue a news release indicating that the warrants expiry date has accelerated to the date set forth in the news release. An amended SB-2 registration statement was submitted on November 9, 2004 to the Securities and Exchange Commission ("SEC"). It incorporated their comments and updated the statement for the September 30, 2004 accounting period.

Several confidentiality agreements have been entered into with independent entities to allow for discussions of geothermal power development projects including the potential acquisition of an existing power plant. In addition, GTH entered into a letter of intent to conduct a due diligence investigation on a project with an early stage geothermal resource. GTH paid \$15,000 as a non-refundable payment to secure an exclusive non-binding 60-day option, expiring August 31, 2004 to complete its due diligence. The results of our due diligence have lead to a termination of negotiations.

Although the market for different forms of energy is large and dominated by very powerful players, we perceive our industrial competition to be independent power producers and in particular those producers who provide “green” renewable power. Our definition of green power is electricity derived from a source that does not pollute the air, water or earth. Sources of green power, in addition to geothermal, include wind, solar, biomass and run-of-the river hydroelectric. Green power is a niche sub-market, in which many power purchasers are committed to increasing their investments. Accordingly, the conventional energy producers do not provide direct competition. In the Pacific Northwest there are currently no geothermal facilities. There exist a number of wind farms, as well as biomass and run-of-the river hydroelectric facilities. However, GTH believes that the combination of greater reliability from geothermal, access to infrastructure for deliverability, and a low “full life” cost will allow it to successfully compete for long term power purchase agreements.

1.3 Results of Operations

The Company incurred a net loss of \$350,910 for the three months ended September 30, 2004 compared to a net loss of \$12,785 for the same period in 2003. During the three months ended September 30, 2004 there were no revenues, which was the situation for the same period ended September 30, 2003 as GTH was still in a development stage and had not yet placed its resources into commercial electricity power generation. .

Expenses were \$340,972 as compared to \$12,785 for the same period a year earlier. Consulting fees increased to \$61,416 for the three months ended September 30, 2004 and was \$5,000 for the same period ended September 30, 2003. The increase is due to retention of a full time of Vice-President of Operations and the retention of corporate relations consultants. In the three month period ended September 30, 2004, professional fees increase by \$119,454 from \$284 for the period ended September 30, 2003 to \$119,738 for the same period in 2004. The increase is due to legal work incurred on power purchase agreement, public utility submissions and the SEC filing. Finally, management fees increased to \$31,968 in the quarter ended September 30, 2004 from \$3,000 a year earlier as three of the four corporate officers did not receive any compensation in the quarter ended September 30, 2003.

During the 2nd quarter of 2004, there were two expense items which were not reflected in the comparative period ending September 30, 2004. A one-time geothermal review expense of \$15,000 reflects the due diligence incurred on a prospective Nevada geothermal resource. The \$58,002 of stock based compensation is due to the September 17, 2004 private placement including stock purchase warrants.

Property, Plant and Equipment decreased from \$794,247, at June 30, 2004 to \$630,853 at September 30, 2004 as reimbursement received in a DOE GRED grant exceeded expenditures during the period. The company receipted \$206,232 in DOE GRED grants. There was no write-down of assets.

The current focus for GTH continues to be the development of the Raft River Idaho Geothermal Project. Pending the completion of a resource production model, management’s objective is the procurement of a long-term power purchase agreement (“PPA”) prior to the end of calendar year 2004. This prospective agreement may be either a conventional PPA or a PURPA contract under the regulations of the Idaho Public Utility Corporation. The successful procurement of a PPA is a prerequisite to the raising of equity and debt financing required to construct and commission an

electrical generation facility at Raft River.

The cost to construct and commission a binary cycle geothermal power plant, depending on size, is projected to range between \$1.8 and \$2.4 million per Megawatt (“MW”) of capacity. A preliminary estimate of plant size is 10 to 20 MW, which would require upwards of \$45 million. These estimates are preliminary as there has not been any detailed engineering undertaken.

1.4 Summary of Quarterly Results

Quarter	Revenues	Income (loss) for the period	Basic income (loss) per share
30-Sep-04	Nil	(350,910)	(0.03)
30-Jun-04	Nil	(145,413)	(0.01)
31-Mar-04	Nil	(165,900)	(0.02)
31-Dec-03	Nil	(134,781)	(0.04)
30-Sep-03	Nil	(76,501)	(0.01)
30-Jun-03	Nil	(44,161)	-
31-Mar-03	Nil	(79,865)	(0.01)
31-Dec-02	Nil	(28,858)	-

The quarterly results through September 30, 2003 represent the results of U.S. Cobalt Inc. prior to the reverse takeover by Geo-Idaho.

1.5 Liquidity

At September 30, 2004, GTH had an accumulated deficit of (\$1,434,217). The Company expects to incur losses for at least the next 24 months. There can be no assurance that the Company will ever make a profit. To achieve profitability, the Company must procure a long-term power purchase agreement from an investment grade utility, and obtain financing to build and commission a geothermal electrical power generation facility. At September 30, 2004, the cash position of the Company was \$2,605,722 as compared to \$354,911 at June 30, 2004. Working capital was \$2,583,399 at September 30, 2004 as compared to \$280,838 three months earlier. Additional financing will be required to fund the cost of continued development of the Raft River project and other operating activities, including the construction and commissioning of a power generation facility.

GTH received an increase of \$400,000 for its Raft River Idaho geothermal resource exploration and development (GRED II), non-repayable, cost sharing grant from the United States Department of Energy (USDOE). Accordingly, the DOE will pay \$730,000 of the work over and well testing program which is approximately 70% complete. GTH’s financial exposure on completing this program has been reduced to approximately \$70,000, thus conserving financial resources.

There are currently no long-term debts, capital lease obligations, operating leases or purchase obligations. Geothermal rights annual lease rentals are approximately \$17,000 and rise to \$27,000 in 2007.

1.6 Capital Resources

GTH has no major commitments for capital expenditures. Except as otherwise disclosed in this MD&A, there are currently no other identified sources of new capital. Additionally, the Company currently has no established credit lines with chartered banks or other financial institutions.

1.7 Off Balance Sheet Transactions

GTH can increase its ownership of the Vulcan property from 75% to 100%, anytime prior to construction of a power plant at Raft River by payment of \$125,000. This option can materially affect future revenues, operating cash flow and income as well as capital commitments. The actual financial impact cannot be determined at this time.

1.8 Related Party Transactions

As at September 30, 2004, an amount of \$140,647 (2003 - \$33,269) is payable to directors and officers of the Company. Subsequent to September 30, 2004 the Company paid \$130,657 of the balance outstanding.

During the quarter ending September 30th, GTH incurred the following transactions with directors, officers and a company with a common director:

	September 30, 2004	March 31, 2004
Management fees	\$ 70,041	\$ 111,855
Consulting fees	14,140	24,123
Administrative services	8,862	10,029
Rent	5,530	10,067
	<u>\$ 98,573</u>	<u>\$ 156,074</u>

Approximately \$11,000 was paid for legal services to a law firm in which an independent director is a partner.

1.9 Risk Factors

An investment in shares of our common stock involves a high degree of risk. You should consider the following factors in evaluating our business and proposed activities before you purchase any shares of our common stock.

Risks Relating To Our Business

Our ability to continue as a going concern is uncertain.

Our financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. We have a need for substantial funds to develop our geothermal properties.

We have financed our activities to date using private debt and equity financings, and we have no line of credit or other financing agreement providing borrowing availability with a commercial lender. Our ability to continue as a going concern is dependent upon adequate sources of capital and the ability to sustain positive results of operations and cash flows sufficient to continue to explore for and develop our geothermal assets.

All the foregoing lead to questions concerning our ability to meet our obligations as they come due. There is no assurance that the carrying amounts of our assets will be realized or that liabilities will be liquidated or settled for the amounts recorded. GTH is in a development stage and there is no assurance, at this time that we will procure a long-term power purchase agreement or the associated equity and/or debt financing required to build and commission a geothermal electrical power generation facility.

We have a limited operating history, have incurred losses to date, and cannot give any assurance that we can ever attain profitability.

Our company has been engaged in limited activities in the geothermal business since Geo-Idaho's incorporation in February 2002. As a result of our brief operating history, our operating results from historical periods are not readily comparable to and may not be indicative of future results. We have not generated revenues from operations to date, and cannot give any assurance that we will be able to generate revenues in the future. For the years ended March 31, 2003 and 2004, we incurred net losses of (\$164,909) and (\$436,061), respectively. At September 30, 2004, we had an accumulated deficit of (\$1,434,227). We expect to incur losses for at least the next 18 to 24 months. We cannot give you any assurance that we will soon make a profit or that we will ever make a profit. To achieve profitability, we must, among other things, procure a long-term power purchase agreement from an investment grade utility, and obtain financing to build and commission a geothermal electrical power generation facility.

Our future performance depends on our ability to establish that the geothermal resource is economically exploitable.

Geothermal resource exploration and development involves a high degree of risk. The independent accountants' report on our financial statements as of and for the year ended March 31, 2004 includes an explanatory paragraph, which states that GTH has not yet determined whether its properties contain economically recoverable geothermal reserves. The recovery of the amounts shown for geothermal properties and related deferred costs on our financial statements, as well as the execution of our business plan generally, is dependent upon the existence of economically recoverable reserves. Until the balance of the development program is completed and an independent reserve appraisal undertaken, the potential of the Raft River property is undetermined.

We have a need for substantial additional financing and will have to significantly curtail or cease operations if we are unable to secure such financing.

At September 30, 2004 we had a cash position of \$2,605,722. We require substantial additional financing to fund the cost of continued development of the Raft River project and other operating

activities, to acquire the remaining ownership of property making up the project, and to finance the growth of our business, including the construction and commissioning of a power generation facility. Excluding the construction and commissioning of said facility, the recent financing on September 17, 2004 is expected to maintain operations for 24 months. We may not be able to obtain the needed funds on terms acceptable to us or at all for the power generation facility.

Further, if additional funds are raised by issuing equity securities, significant dilution to our current shareholders may occur and new investors may get rights that are preferential to current shareholders. Alternatively, we may have to bring in a joint venture partner to fund further development work, which would result in reducing our interest in the project.

It is very costly to place geothermal resources into commercial production.

If a commercial geothermal resource is established in respect to the Raft River project, before the sale of any power can occur, it will be necessary to construct a gathering and disposal system, a power plant, and a transmission line, and considerable administrative costs would be incurred, together with the drilling of additional wells. We have estimated the costs to be around US \$30,000,000 for a 15 Megawatt size power plant. To fund expenditures of this magnitude, we may have to find a joint venture participant with substantial financial resources. There can be no assurance that a participant can be found and, if found, it would result in GTH having to substantially reduce its interest in the project.

If we are unable to enter into a long-term power purchase agreement or a power distribution agreement to deliver our power, we will be unable to distribute power and generate revenues.

Once our reserves are established, our strategy is to enter into a long-term power purchase agreement from an investment grade utility, which we anticipate will allow us to obtain financing to build and commission a geothermal electrical power generation facility. If our power purchase agreement does not provide access to a power distribution grid, we will also need to enter into an agreement with a power distribution network. Even if our reserves are established, there can be no assurance that the Company will be able to negotiate, execute and maintain favourable power purchase or distribution agreements.

We may not be able to manage our growth.

Significant growth in our operations will place demands on our operational, administrative and financial resources, and the increased scope of our operations will present challenges to us due to increased management time and resources required and our existing limited staff. Our future performance and profitability will depend in part on our ability to successfully integrate the operational, financial and administrative functions of Raft River and other acquired properties into our operations, to hire additional personnel and to implement necessary enhancements to our management systems to respond to changes in our business. There can be no assurance that we will be successful in these efforts. Our inability to integrate acquired properties, to hire additional personnel or to enhance our management systems could have a material adverse effect on our results of operations.

If we incur additional debt to fund our business, the risks significant debt levels pose will increase.

We will need to procure significant additional financing to construct, commission and operate a power plant at Raft River in order to generate and sell electricity. If this financing includes the issuance of material amounts of debt, this would expose GTH to additional risks including,

among others, the following:

- A portion of our cash flow from operations would be used for the payment of principal and interest on our indebtedness and would not be available for financing capital expenditures or other purposes;
- Our level of indebtedness and the covenants governing our indebtedness could limit our flexibility in planning for, or reacting to, changes in our business because certain activities or financing options may be limited or prohibited under the terms of agreements relating to such indebtedness;
- Our level of indebtedness may make us more vulnerable to defaults by the purchasers of electricity or in the event of a downturn in our business because of our fixed debt service obligations; and
- The terms of agreements may require us to make interest and principal payments and to remain in compliance with stated financial covenants and ratios. If the requirements of such agreements were not satisfied, the lenders would be entitled to accelerate the payment of all outstanding indebtedness and foreclose on the collateral securing payment of that indebtedness, which would likely include our interest in the project.

In such an event, we cannot assure you that we would have sufficient funds available or could obtain the financing required to meet our obligations, including the repayment of outstanding principal and interest on such indebtedness.

The success of our business relies on retaining our key personnel.

We are dependent upon the services of our President and Chief Executive, our Chief Operating Officer, and our Chief Financial Officer. The loss of any of their services could have a material adverse effect upon us. GTH has executed employment agreements with these persons but does not have key-man insurance on any of them.

Our development activities are inherently very risky.

The risks involved in the development of a geothermal resource cannot be over-stated. The development of a geothermal resource is such that there cannot be any assurance of success. Exploration costs are not fixed, and the resource cannot be relied upon until substantial development has taken place, which entails high exploration and development costs. The costs of development drilling are subject to numerous variables, which could result in substantial cost overruns. Drilling for geothermal resource may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Our drilling operations may be curtailed, delayed or cancelled as a result of numerous factors, many of which are beyond our control, including economic conditions, mechanical problems, title problems, weather conditions, compliance with governmental requirements and shortages or delays of equipment and services. If our drilling activities are not successful, we would experience a material adverse effect on our future results of operations and financial condition.

In addition to the substantial risk that wells drilled will not be productive, hazards such as unusual or unexpected geologic formations, pressures, downhole fires, mechanical failures, blowouts, cratering, explosions, uncontrollable flows of well fluids, pollution and other physical and environmental risks are inherent in geothermal exploration and production. These hazards

could result in substantial losses to us due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage and suspension of operations. As protection against operating hazards, we maintain insurance coverage against some, but not all, potential losses. We do not fully insure against all risks associated with our business either because such insurance is not available or because the cost of such coverage is considered prohibitive.

The occurrence of an event that is not covered, or not fully covered, by insurance could have a material adverse effect on our financial condition and results of operations.

The impact of governmental regulation could adversely affect our business.

Our business is subject to certain federal, state and local laws and regulations, including laws and regulations on taxation, exploration and development, production and distribution of electricity, and environmental and safety matters. Many laws and regulations require drilling permits and govern the spacing of wells, rates of production, prevention of waste and other matters. Such laws and regulations may increase the costs of planning, designing, drilling, installing, operating and abandoning our geothermal wells, the power plant and other facilities. In addition, our operations are subject to complex environmental laws and regulations adopted by federal, state and local jurisdictions where we operate. We could incur liability to governments or third parties for any unlawful discharge of pollutants into the air, soil or water, including responsibility for remedial costs. We could potentially discharge such materials into the environment in any of the following ways:

- From a well or drilling equipment at a drilling site;
- Leakage from gathering systems, pipelines, power plant and storage tanks;
- Damage to geothermal wells resulting from accidents during normal operations; and blowouts, catering and explosions.

In addition, the submission and approval of environmental impact assessments may be required. Environmental legislation is evolving in a manner, which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

Because the requirements imposed by such laws and regulations are frequently changed, we cannot assure you that laws and regulations enacted in the future, including changes to existing laws and regulations, will not adversely affect our business. In addition, because we acquire interests in properties that have been operated in the past by others, we may be liable for environmental damage caused by such former operators.

Claims have been made that some geothermal plants cause seismic activity and related property damage.

There are approximately two dozen geothermal plants operating within a fifty-square-mile region in the area of Anderson Springs, in Northern California, and there is general agreement that the operation of these plants causes a generally low level of seismic activity. Some residents in the Anderson Springs area have asserted property damage claims against those plant operators. There are significant issues whether the plant operators are liable, and to date no court has found

in favour of such claimants. Even if liability is imposed on operators in the Anderson Springs area, we do not believe the area of the Raft River project or our intended operation of a power plant present the same geological or seismic risks.

Changes in wholesale power prices may affect our profitability.

The wholesale power price is beyond our control and subject to significant fluctuations.

There is no guarantee that the wholesale power price in effect at any point in time will result in the profitable operation of a geothermal power producer.

There are some risks for which we do not or cannot carry insurance.

GTH may become subject to liability for pollution or other hazards against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. In particular, GTH is not insured for environmental liability or earthquake damage.

Our officers and directors may have conflicts of interests arising out of their relationships with other companies.

Several of our directors and officers serve (or may agree to serve) as directors or officers of other companies or have significant shareholdings in other companies. Because our executive officers currently serve in only part-time capacities, the extent that such other companies require their services may conflict with the available time or scheduling of services performed for GTH. To the extent that such other companies may participate in ventures in which GTH may participate, the directors may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. If a conflict of interest arises, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment.

Under the laws of the State of Delaware, the directors of GTH would be required to act honestly, in good faith and in the best interests of GTH. In determining whether or not GTH would participate in a particular program and what interest GTH would acquire in it, the directors would primarily consider the degree of risk to which GTH would be exposed and its financial position at that time.

1.10 Proposed Transactions

Several confidentiality agreements have been entered into with independent entities to allow for discussions of geothermal power development projects including potential acquisition of an existing power plant. In addition, GTH previously entered into a letter of intent to conduct a due diligence investigation on a project with an early stage geothermal resource. GTH paid \$15,000 as a non-refundable payment to secure an exclusive non-binding 60-day option, which expired on August 31, 2004, to complete its due diligence. The results of this due diligence lead to a termination of negotiations.

Completion and acquisition is subject to a number of factors, including due diligence, definitive documentation and the approval of the TSX Venture Exchange.

1.11 Changes in Accounting Policies

In 2003, the CICA amended the Handbook Section 3870 – “Stock Based Compensation and Other Stock Based Payments”. Under this amended standard, the Company must account for compensation expense based on the fair value of rights granted under its stock based compensation plan. Under this method, compensation costs attributable to stock options granted to employees or directors is measured at fair value at the grant date, and expensed over the expected exercise time frame with a corresponding increase to contributed surplus. GTH elected to adopt Section 3870 effective April 1, 2004 on a retroactive basis. The impact in 2004 and 2003 upon adoption is reflected in the pro-forma stock based compensation disclosures (Note 6) Of the attached audited annual financial statements.

1.12 Financial Instruments

GTH’s financial instruments consist of cash and equivalents, Goods and Services Tax recoverable, due from affiliated company, 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.

1.13 Other Information

There were 4,000,001 shares issued from treasury during the quarter ended September 30, 2004.

	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFICIT	TOTAL
Balance, March 31, 2002	2,600,000	\$ 2,600	\$ 37,400	\$ -	\$ 40,000
Shares issued for:					
Cash	1,418,667	1,419	404,431	-	405,850
Professional services	166,170	166	49,434	-	49,600
Geothermal property	1,895,000	1,895	15,105	-	17,000
Net loss for the year	-	-	-	-147,610	-147,610
Balance, March 31, 2003	6,079,837	6,080	506,370	-147,610	364,840
Adjustment to number of shares issued and outstanding as a result of the reverse take-over transaction	-6,079,837	-6,080	6,080	-	-
Shares issued at time of reverse take-over	2,274,616	2,275	-2,275	-	-
	2,274,616	2,275	510,175	-147,610	364,840
Shares issued for:					
Acquisition of U.S. Geothermal Inc. (Note 3)	6,939,992	6,940	-6,940	-408,166	-408,166

Private placement, net of share issue costs of \$100,559 (Note 5(a))	3,322,221		3,322		1,416,556		-		1,419,878
Settlement of debts (Note 5(b))	385,864		386		173,252		-		173,638
Stock options granted (Note 6)	-		-		55,744		-		55,744
Net loss for the year	-		-		-		-382,128		-382,128
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Balance, June 30, 2004	12,922,693	\$	12,923	\$	2,148,787	\$	-937,904	\$	1,223,806
Shares issued for:									
Private placement, net of share issue costs of \$225,130	4,000,001	\$	4,000	\$	2,486,029	\$	-496,323	\$	1,993,706
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Balance Sept. 30, 2004	16,922,694	\$	16,923	\$	4,634,816	\$	-1,434,227	\$	3,217,512

As at September 30, 2004, the Company had 5,335,017 common shares and 2,231,829 share purchase warrants held in escrow.

Share purchase warrants outstanding at September 30, 2004 were as follows:

NUMBER OF WARRANTS	EXERCISE PRICE	EXPIRY DATE
4,081,327	\$0.75	15-Dec-05
192,932	\$0.75	17-Feb-06
83,333	\$0.45	15-Dec-05
4,280,001	\$1.25	17-Sep-06
280,000	\$0.85	17-Sep-06
<hr/>		
8,917,593		
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The following table summarizes stock options information at September 30, 2004:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE	NUMBER OF SHARES	REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SHARES	EXERCISE PRICE
\$ 0.44	1,745,000	4.51	436,250	\$ 0.44

Subsequent to September 30, 2004 278,735 options were exercised for gross proceeds of \$130,657.

FORM 52-109F2
CERTIFICATION OF INTERIM FILINGS

I, Daniel Kunz, CEO and Director, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) of **US Geothermal Inc.**, (the issuer) for the interim period ending September 30, 2004;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;

November 29, 2004

“Daniel Kunz”

Daniel Kunz
CEO and Director

FORM 52-109F2
CERTIFICATION OF INTERIM FILINGS

I, Ronald Bourgeois, CFO, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) of **US Geothermal Inc.**, (the issuer) for the interim period ending September 30, 2004;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;

November 29, 2004

“Ronald Bourgeois”

Ronald Bourgeois,
CFO