

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES ACT OF 1934

For the quarterly period ended September 30, 2009

TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-34023

U.S. GEOTHERMAL INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

84-1472231

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

1505 Tyrell Lane
Boise, Idaho

83706

(Address of Principal Executive Offices)

(Zip Code)

208-424-1027

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [] No [**X**]

Indicate the number of shares outstanding of each of the issuer’s classes of common equity, as of the latest practicable date.

<u>Class of Equity</u>	<u>Shares Outstanding as of October 30, 2009</u>
Common stock, par value \$ 0.001 per share	62,131,882

U.S. Geothermal Inc.

Form 10-Q

For the 2nd Quarter Ended September 30, 2009

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Part I- Financial Information

Item 1 - Financial Statements

The financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles may have been condensed or omitted. However, in the opinion of management, all adjustments (which include only normal recurring accruals) necessary to present fairly the financial position and results of operations for the periods presented have been made. These financial statements should be read in conjunction with the accompanying notes, and with the audited financial statements and notes to the financial statements included in the Company's 10-K for the year ended, March 31, 2009. The results of operations for the six months ended September 30, 2009 and September 30, 2008 are not necessarily indicative of the results to be expected for the fiscal year ending March 31, 2010.

U.S. GEOTHERMAL INC.



**Consolidated Financial Statements
September 30, 2009**

U.S. GEOTHERMAL INC.
CONSOLIDATED BALANCE SHEETS
(Stated in U.S. Dollars)

	(Unaudited) September 30, 2009	(Restated) March 31, 2009
ASSETS		
Current:		
Cash and cash equivalents	\$ 9,996,609	\$ 3,452,091
Restricted cash (note 3)	585,000	485,000
Receivable from subsidiary	910,649	271,475
Trade accounts receivable	271,768	114,424
Other current assets	100,803	135,805
Total current assets	<u>11,864,829</u>	<u>4,458,795</u>
Investment in equity securities	267,582	150,169
Investment in subsidiary (note 4)	18,193,743	18,501,533
Property, plant and equipment, net of accumulated depreciation (note 5)	14,081,974	13,156,700
Intangible assets, net of accumulated amortization (note 6)	<u>16,063,083</u>	<u>16,184,146</u>
Total assets	<u>\$ 60,471,211</u>	<u>\$ 52,451,343</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 841,250	\$ 449,559
Related party accounts payable	1,103	2,491
Current portion of capital lease obligation	11,413	10,998
Total current liabilities	<u>853,766</u>	<u>463,048</u>
Long-term Liabilities:		
Capital lease obligation, less current portion	33,145	38,945
Stock compensation payable	1,933,255	1,933,255
Promissory note payable (note 8)	230,000	-
Total liabilities	<u>3,050,166</u>	<u>2,435,248</u>
Commitments and Contingencies	-	-
STOCKHOLDERS' EQUITY		
Capital stock:		
Authorized:		
250,000,000 common shares with a \$0.001 par value		
Issued and outstanding:		
62,033,882 shares at March 31, 2009 and		
62,081,882 shares at September 30, 2009	62,082	62,034
Stock issuable (note 9)	9,120,294	-
Additional paid-in capital	65,808,055	64,694,849
Accumulated other comprehensive income	202,148	95,891
Accumulated deficit	<u>(18,441,404)</u>	<u>(15,514,911)</u>
	56,751,175	49,337,863
Non-controlling interest (note 16)	<u>669,870</u>	<u>678,232</u>
Total stockholders' equity	<u>57,421,045</u>	<u>50,016,095</u>
Total liabilities and stockholders' equity	<u>\$ 60,471,211</u>	<u>\$ 52,451,343</u>

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

U.S. GEOTHERMAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Stated in U.S. Dollars)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Six Months Ended September 30,	
	2009	2008*	2009	2008*
Operating Revenues:				
Energy sales, San Emidio	\$ 540,841	\$ 529,383	\$ 784,593	\$ 803,018
Energy credit sales, San Emidio	26,470	-	26,470	-
Land, water, and mineral rights lease	22,500	22,500	51,984	45,000
Management fees	62,500	62,500	125,000	125,000
Gain from investment in subsidiary	82,311	213,226	141,143	316,303
Total operating revenues	734,622	827,609	1,129,190	1,289,321
Operating Expenses:				
Consulting fees	2,574	37,017	2,574	77,650
Corporate admin and development	183,501	155,356	314,202	412,317
Professional and management fees	368,865	254,197	633,006	541,888
Salaries and wages	228,249	308,397	484,654	623,138
Stock based compensation	406,099	319,342	1,045,950	1,060,650
Travel and promotion	77,279	306,578	129,851	371,132
Plant operations, San Emidio	613,429	715,221	1,446,263	1,204,626
Lease and equipment repair	11,180	54,029	63,318	114,168
Total operating expenses	1,891,176	2,150,137	4,119,818	4,405,569
Loss from Operations	(1,156,554)	(1,322,528)	(2,990,628)	(3,116,248)
Other Income (Loss):				
Foreign exchange gain (loss)	-	(707)	11,156	(3,527)
Interest income	30,873	51,054	44,617	111,331
Total other income	30,873	50,347	55,773	107,804
Net Loss	(1,125,681)	(1,272,181)	(2,934,855)	(3,008,444)
Net loss attributable to the non-controlling interest	3,156	-	8,362	-
Net Loss Attributable to U.S. Geothermal Inc.	(1,122,525)	(1,272,181)	(2,926,493)	(3,008,444)
Other Comprehensive Income:				
Unrealized gain on investment in equity securities	73,992	-	106,257	-
Comprehensive Loss Attributable to U.S. Geothermal Inc.	\$ (1,048,533)	\$ (1,272,181)	\$ (2,820,236)	\$ (3,008,444)
Basic And Diluted Net Loss Per Share	\$ (0.02)	\$ (0.02)	\$ (0.05)	\$ (0.05)
Weighted Average Number of Shares Outstanding for Basic and Diluted Calculations	62,037,078	62,011,753	62,035,489	61,011,601

* - As Restated.

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

U.S. GEOTHERMAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in U.S. Dollars)

	(Unaudited) For the Three Months Ended September 30,		(Unaudited) For the Six Months Ended September 30,	
	2009	2008*	2009	2008*
Operating Activities:				
Net loss	\$ (1,122,525)	\$ (1,272,181)	\$ (2,926,493)	\$ (3,008,444)
Add non-cash items:				
Depreciation	249,530	228,545	491,411	395,790
Gain on operations of subsidiary	(82,311)	(213,225)	(141,143)	(316,303)
Foreign exchange gain	-	-	(11,156)	-
Gain on disposal of equipment	-	-	900	-
Stock based compensation	406,099	319,342	1,045,950	1,060,650
Non-controlling interest loss	(3,156)	-	(8,362)	-
Change in non-cash working capital items:				
Accounts receivable	525,042	(17,512)	(796,518)	(166,935)
Accounts payable and accrued liabilities	(405,846)	367,052	61,327	264,533
Prepaid expenses & other	33,380	(247,765)	35,002	(278,327)
Total cash used by operating activities	<u>(399,787)</u>	<u>(835,744)</u>	<u>(2,249,082)</u>	<u>(2,049,036)</u>
Investing Activities:				
Purchases of property, plant and equipment	(772,459)	(1,402,594)	(968,046)	(20,374,803)
Cash released from (restricted by) external restrictions	(100,000)	-	(100,000)	(200,000)
Cash released from escrow for property acquisition	-	-	-	11,310,686
Proceeds from sale of equipment	-	-	500	-
Distribution from (investment in) subsidiaries	448,933	(565,305)	448,933	(940,100)
Total cash provided (used) by investing activities	<u>(423,526)</u>	<u>(1,967,899)</u>	<u>(618,613)</u>	<u>(10,204,217)</u>
Financing Activities:				
Issuance of share capital, net of share issue cost	67,303	-	67,304	13,718,168
Issuance of subscription receipts	9,120,294	-	9,120,294	-
Proceeds from promissory note	230,000	-	230,000	-
Principal payments on capital lease	(2,717)	-	(5,385)	-
Total cash provided by financing activities	<u>9,414,880</u>	<u>-</u>	<u>9,412,213</u>	<u>13,718,168</u>
Increase (Decrease) in Cash and Equivalents	8,591,567	(2,803,643)	6,544,518	1,464,915
Cash and Equivalents, Beginning of Period	<u>1,405,042</u>	<u>9,145,810</u>	<u>3,452,091</u>	<u>4,877,252</u>
Cash and Cash Equivalents, End of Period	\$ <u>9,996,609</u>	\$ <u>6,342,167</u>	\$ <u>9,996,609</u>	\$ <u>6,342,167</u>
Supplemental Disclosure:				
Non-cash investing and financing activities:				
Amendment to geothermal lease with common stock	\$ -	\$ -	\$ -	\$ 783,000
Purchase of property and equip. on account	344,242	439,213	328,976	458,551
* - As Restated				

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

U.S. GEOTHERMAL INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Year Ended March 31, 2009 and the Six Months Ended September 30, 2009
(Stated in U.S. Dollars)

	Number of Shares	Common Shares	Additional Paid-In Capital	Stock Issuable	Accumulated Deficit	Accumulated Comprehensive Income	Non- controlling Interest	Totals
Balance at April 1, 2008	55,339,253	\$ 55,339	\$ 48,532,730	\$ -	\$ (10,327,157)	\$ -	\$ -	\$ 38,260,912
Capital stock issued as result of a private placement closed April 28, 2008, net of issuance costs	6,382,500	6,383	13,711,784	-	-	-	-	13,718,167
Capital stock issued for amendment to royalty agreement with the Kosmos Company	290,000	290	782,710	-	-	-	-	783,000
Shares issued for stock options and warrants exercised	22,134	22	10,418	-	-	-	-	10,440
Adjustment to entitlement shares from consolidated Mango and US Cobalt stock consolidations	(5)	-	-	-	-	-	-	-
Formation contribution by non-controlling interest (Gerlach Green Energy, LLC)	-	-	-	-	-	-	697,000	697,000
Stock compensation liability	-	-	1,657,207	-	-	-	-	1,657,207
Unrealized gain on investment	-	-	-	-	-	95,891	-	95,891
Net loss for the period - restated	-	-	-	-	(5,187,754)	-	(18,768)	(5,206,522)
Balance at March 31, 2009 - restated	62,033,882	62,034	64,694,849	-	(15,514,911)	95,891	678,232	50,016,095
Stock options granted	48,000	48	67,256	-	-	-	-	67,304
Subscription receipts issued August 17, 2009 (note 9)	-	-	-	9,120,294	-	-	-	9,120,294
Stock compensation liability	-	-	1,045,950	-	-	-	-	1,045,950
Unrealized gain on investment	-	-	-	-	-	106,257	-	106,257
Net loss (gain) for the period – unaudited	-	-	-	-	(2,926,493)	-	(8,362)	(2,934,855)
Balance at September 30, 2009 – unaudited	<u>62,081,882</u>	<u>\$ 62,082</u>	<u>\$ 65,808,055</u>	<u>\$ 9,120,294</u>	<u>\$ (18,441,404)</u>	<u>\$ 202,148</u>	<u>\$ 669,870</u>	<u>\$ 57,421,045</u>

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

U.S. GEOTHERMAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2009
(Stated in U.S. Dollars)

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

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, U.S.A. acquired control of GTH. In connection with the transaction, U.S. Cobalt Inc. changed its name to U.S. Geothermal Inc. and consolidated its common stock on a one new to five old basis. All references to common shares in these financial statements have been restated to reflect the roll-back of common stock.

The Company constructs and manages power plants that utilize geothermal resources to produce energy. The Company’s operations have been, primarily, focused in the Western United States of America.

These financial statements have been restated to reflect the correction of an error to record the carrying value of our investment in the subsidiary Raft River Energy I LLC under the hypothetical liquidation at book value method, as further described in Note 2- Restatement of Consolidated Financial Statements for a Correction of an Error in our Annual Report under Form 10-K, as amended.

All references to “dollars” or “\$” are to United States dollars and all references to \$ CDN are to Canadian dollars.

Basis of Presentation

These unaudited interim consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). Such rules and regulations allow the omission of certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America, so long as such omissions do not render the financial statements misleading. Certain prior period amounts have been reclassified to conform to the current period presentation.

In the opinion of management, these financial statements reflect all adjustments that are necessary for a fair statement of the results for the periods presented. All adjustments were of a normal recurring nature. These interim financial statements should be read in conjunction with the annual financial statements of the Company included in its Annual Report on Form 10-K, as amended.

The Company consolidates subsidiaries that it controls (more-than-50% owned) and entities over which control is achieved through means other than voting rights. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The accounts of the following companies are consolidated in these financial statements:

- i) U.S. Geothermal Inc. (incorporated in the State of Delaware);
- ii) U.S. Geothermal Inc. (incorporated in the State of Idaho);
- iii) Gerlach Geothermal LLC (organized in the State of Delaware);
- iv) U.S. Geothermal Services, LLC (organized in the State of Delaware);
- v) USG Nevada LLC (organized in the State of Delaware);
- vi) USG Gerlach LLC (organized in the State of Delaware);
- vii) USG Oregon LLC (organized in the State of Delaware); and
- viii) U.S. Geothermal Guatemala, S.A.

All intercompany transactions are eliminated upon consolidation.

Raft River Energy I LLC, previously a 100% owned subsidiary, was consolidated through July 2006, after which the entity is recorded under the equity method.

In cases where the Company owns a majority interest in an entity but does not own 100% of the interest in the entity it recognizes a non-controlling interest. The Company will recognize 100% of the assets and liabilities of the entity, and disclose the non-controlling interest. The statements of operations will consolidate the subsidiary's full operations, and will separately disclose the elimination of the non-controlling interest's allocation of profits and losses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are summarized accounting policies considered to be significant by the Company's management:

Accounting Method

The Company's financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and have been consistently applied in the preparation of the consolidated financial statements.

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 consolidated 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 consolidated financial position and consolidated results of operations.

Cash and Cash Equivalents

The Company considers all unrestricted cash, short-term deposits, and other investments with original maturities of no more than ninety days when acquired to be cash and cash equivalents for the purposes of the statement of cash flows. Discussion regarding restricted cash is included in Note 3.

Trade Accounts Receivable Allowance for Doubtful Accounts

Management estimates the amount of trade accounts receivable that may not be collectible and records an allowance for doubtful accounts, accordingly. The allowance is an estimate based upon aging of receivable balances, historical collection experience, and the periodic credit evaluations of our customers' financial condition. Receivable balances are written off when we determine that the balance is uncollectible. As of September 30, 2009 and March 31, 2009, there were no balances that were over 90 days past due and no balance in allowance for doubtful accounts was recognized.

Concentration of Credit Risk

The Company's cash and cash equivalents, including restricted cash, consisted of commercial bank deposits, money market accounts, and petty cash. Cash deposits are held in a commercial bank in Boise,

Idaho. The accounts are guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 per legal entity through December 31, 2013. At September 30, 2009, the Company held deposits of \$89,036 that were not subject to FDIC insurance. The money market funds totaled \$9,949,223, and are not subject to deposit insurance.

Allocation of Profits and Losses from Subsidiaries with Complex Ownership Structures

For subsidiaries that have contractually complex ownership rights, benefits and obligations, the Company utilizes the hypothetical liquidation at book value method (“HLBV”) for allocating profits and losses. This method utilizes the specific terms outlined in the subsidiary’s operating agreement or other authoritative documents. These terms may include cash disbursement terms, associated financial instruments, debt arrangements, and rights to specific revenue streams.

According to the operating agreement, upon liquidation and, after payment of all outstanding debts, any remaining funds would be distributed to the Members in accordance to their positive capital account balance ratio. Certain contract provisions contain allocation of profit and loss items to arrive at the capital account balances. Since the Company is currently the minority member recording their investment in RREI under the equity method, we utilize a hypothetical liquidation at book value at each balance sheet date to value our investment.

For our investment in RREI, the investment will change based upon actual capital contributions, actual cash distributions, 70% of revenue from renewable energy credits, and 1% of all other profit and loss items. See note 4 Investments in Subsidiaries.

Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Where appropriate, terms of property rights and revenue contracts can influence the determination of estimated useful lives. Estimated useful lives by major asset categories are summarized as follows:

<u>Asset Categories</u>	<u>Estimated Useful Lives in Years</u>
Furniture, vehicle and other equipment	4
Power plant, buildings and improvements	15 to 30
Wells	30
Well pumps and components	5 to 15
Pipelines	30
Transmission lines	30

The Company expenses all costs related to the development of geothermal reserves prior to the establishment of proven and probable reserves. Once a resource is considered to be proven, then costs of acquisition and development are capitalized on an area-of-interest basis. If an area of interest is subsequently abandoned, those costs are charged to income in the year of abandonment.

Impairment of Long-Lived Assets

The Company evaluates its long-term assets annually for impairment or when circumstances or events occur that may impact the fair value of the assets. The fair value of geothermal property is primarily evaluated based upon the present value of expected revenues directly associated with those assets. An impairment loss would be recognized if the carrying amount of a capitalized asset is not recoverable and

exceeds its fair value. Management believes that there have not been any circumstances that have warranted the recognition of losses due to the impairment of long-lived assets as of September 30, 2009.

Stock Options Granted to Employees and Non-employees

The Company follows financial accounting standards that require the measurement of the value of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award. For employees, directors and officers, the fair value of the awards are expensed over the vesting period. The current vesting period for all options is eighteen months.

Non-employee stock-based compensation is granted at the Board of Director's discretion to award select vendors for exceptional performance. Prior to issuance of the awards, the Company was not under any obligation to issue the stock options. Subsequent to the award, the recipient was not obligated to perform any services. Therefore, the fair value of these options was expensed on the grant date, which was also the measurement date.

Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Determining the fair value of share-based awards at the grant date requires judgment. In addition, judgment is also required in estimating the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

Earnings Per Share

The Company has adopted Financial Accounting Standards, which provides for calculation of "basic" and "diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Although there were common stock equivalents outstanding at September 30, 2009 and 2008, they were not included in the calculation of earnings per share because their inclusion would have been considered anti-dilutive.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, trade account and other receivables, 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 and is included in other current assets.

The Company's functional currency is the U.S. dollar. Monetary items are converted into U.S. dollars at the rate prevailing at the balance sheet date. Resulting gains and losses are generally included in determining net income for the period in which exchange rates change.

Foreign Operations

The accompanying balance sheet contains certain recorded Company assets (principally cash) in a foreign country (Canada). Although Canada is considered economically stable, it is always possible that unanticipated events in Canada could disrupt the Company's operations.

Provision for Taxes

Income taxes are provided based upon the liability method. Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard imposed by accounting standards to allow recognition of such an asset.

At September 30, 2009, the Company had net deferred tax assets calculated at an expected rate of 34% of approximately \$4,135,000 (March 31, 2009 - \$3,464,000) principally arising from net operating loss carry forwards and stock compensation. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset was recorded at September 30, 2009.

The significant components of the deferred tax asset at September 30, 2009 and March 31, 2009 were as follows:

	<u>September 30, 2009</u>	<u>March 31, 2009</u>
Estimated net operating loss carry forward	<u>\$ 12,161,000</u>	<u>\$ 10,187,000</u>
Deferred tax asset	\$ 4,135,000	\$ 3,464,000
Deferred tax asset valuation allowance	<u>(4,135,000)</u>	<u>(3,464,000)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

At September 30, 2009, the Company has net operating loss carry forwards of approximately \$12,161,000 (\$10,187,000 in March 31, 2009), which expire in the years 2023 through 2029. The change in the allowance account from March 31, 2009 to September 30, 2009 was \$671,000.

Although we believe that our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different than that which is reflected in our tax provisions. Ultimately, the actual tax benefits to be realized will be based upon future taxable earnings levels, which are very difficult to predict.

Accounting for Income Tax Uncertainties and Related Matters

We may be assessed penalties and interest related to the underpayment of income taxes. Such assessments would be treated as a provision of income tax expense on our financial statements. For the three months ended September 30, 2009, no income tax expense has been realized as a result of our operations and no income tax penalties and interest have been accrued related to uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and in the State of Idaho. The Company will be required to file state income tax returns in the State of Oregon in future years. These filings are subject to a three year statute of limitations. Our evaluation of income tax positions included the fiscal years ended March 31, 2008, 2007, and 2006 which could be subject to agency examinations as of March 31, 2009. No filings are currently under examination. No adjustments have been made to reduce our estimated income tax benefit at fiscal year end. Any valuations relating to these income tax provisions will comply with U.S. generally accepted financial accounting principles.

Revenue

Revenue Recognition

The energy sales revenue is recognized when the power is produced and delivered to the customer under the terms defined in the Power Purchase Agreements (“PPA”). Management fee income is recognized when the services have been provided. Royalties and Lease revenues are recognized as the resource has been utilized and other contractual obligations have been met. Revenues from energy credits sales are recognized when the Company has met the terms of certain energy sales agreements with a financially capable buyer and has met the applicable governing regulations.

Revenue Source

All of the Company’s direct and indirect operating revenues originate from energy production from its interests in geothermal power plants located in the states of Idaho and Nevada. All of the management fees and royalty revenues are earned from its subsidiary located in South Eastern Idaho. All of the power sales are earned from a power plant located in North Western Nevada.

Recent Accounting Pronouncements

Accounting Standards Codification

The FASB issued Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles - A Replacement of FASB Statement No.162* (“SFAS 168”). SFAS 168 establishes the FASB Accounting Standards Codification (“ASC”) as the single source of authoritative U.S. generally accepted accounting principles (“U.S. GAAP”) recognized by the FASB to be applied by nongovernmental entities. SFAS 168 and the ASC are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the ASC will supersede all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The Company does not expect the adoption of this standard to have a direct quantitative material impact on its financial position or results of operations. The Codification will directly impact all authoritative references to U.S. GAAP used by the Company.

Subsequent Events

The FASB issued Financial Accounting Standards No. 165, *Subsequent Events* (“SFAS 165”) (ASC 855-10-50-1). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. Specifically, SFAS 165 provides:

- The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements;

- The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and
- The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The Company expects the adoption of this standard to have a direct impact on the content of applicable financial disclosures.

NOTE 3 – RESTRICTED CASH

The Company maintains cash balances that are restricted under Letter of Credit covenants for State and Federal well bonding requirements. These bonds renew on an annual basis. Restricted cash balances and explanations of the nature of the restrictions are summarized as follows:

<u>State Agency</u>	<u>September 30, 2009</u>	<u>March 31, 2009</u>
Idaho Department of Water Resources, Geothermal Well Bond	\$ 260,000	\$ 260,000
State of Nevada Division of Minerals, Statewide Drilling Bond	50,000	50,000
Bureau of Land Management, Geothermal Lease Bonds	150,000	150,000
Oregon Department of Geology and Mineral Industries, Mineral Land and Reclamation Program	<u>125,000</u>	<u>25,000</u>
	<u>\$ 585,000</u>	<u>\$ 485,000</u>

These bonding requirements ensure that the Company has sufficient financial resources to construct, operate & maintain geothermal wells while safeguarding subsurface, surface and atmospheric resources from unreasonable degradation, and to protect ground water aquifers and surface water sources from contamination. Other future costs of environmental remediation cannot be reasonably estimated and have not been recorded.

NOTE 4 – INVESTMENT IN SUBSIDIARIES

RREI resulted from an August 9, 2006 agreement between the Company and Raft River Holdings, LLC, a subsidiary of the Goldman Sachs Group, for construction financing of Phase I of the Raft River project. To accommodate the construction financing, the Company sold 50% of its ownership in Raft River Energy to Raft River Holdings, LLC. As a result of the agreements, the Company was required to contribute cash and property sufficient to complete a 10 megawatt power plant, and Raft River Holdings was required to contribute \$34,170,100.

As of September 30, 2009, the Company has contributed \$17,953,640 in cash and property to the project, while Raft River Holdings, LLC has contributed \$34,170,100.

For periods prior to August 2006, the Company was the 100% owner of RREI and consolidated the loss. For the period August 2006 to September 2009, U.S. Geothermal Inc. recorded RREI under the equity method of accounting for investments in subsidiaries based on the HLBV method.

Effective December 26, 2008, the fiscal year for RREI was changed to a calendar year due to the conversion of Goldman Sachs to a bank holding company. RREI's latest financial information is summarized as follows:

	(Unaudited) As of December 26, 2008	As of November 28, 2008	As of November 30, 2007
Total current assets	\$ 1,554,044	\$ 1,994,238	\$ 234,382
Property and equipment	49,676,148	50,016,779	50,055,675
	<u>\$ 51,230,192</u>	<u>\$ 52,011,017</u>	<u>\$ 50,290,057</u>
Total liabilities	\$ 500,629	\$ 1,434,413	\$ 4,252,786
Total members' equity	50,729,563	50,576,604	46,037,271
	<u>\$ 51,230,192</u>	<u>\$ 52,011,017</u>	<u>\$ 50,290,057</u>

	(Unaudited) Month Ended December 26, 2008	Fiscal Year Ended November 28, 2008	Fiscal Year Ended November 30, 2007
Operating revenues	\$ 538,309	\$ 4,880,303	\$ 96,743
Operating earnings (loss)	152,483	(380,958)	(929,615)
Net earnings (loss)	152,960	(448,593)	(834,234)
U.S. Geothermal Inc., portion of net earnings (loss)	\$ 37,089	\$ 406,222	\$ (8,342)

Raft River Energy I is a joint venture between the Company and Raft River I Holdings, LLC a subsidiary of Goldman Sachs Group, Inc. An Operating Agreement governs the rights and responsibilities of both parties. Raft River Energy I is a voting interest entity recorded on the financial records of the Company as an equity investment. For book and income tax purposes, Raft River I Holdings, LLC will receive a greater proportion of the share of losses and other income tax benefits. During the initial years of operations Raft River I Holdings, LLC will receive a larger allocation of cash distributions. The Company's investment in the Raft River Energy I entity has changed since March 31, 2006 as follows:

Year ended	Activity	Increase (Decrease) in Investment
March 31, 2007	Investment Account Balance	\$ 6,360,349
	Capital Contributions	10,641,871
	Allocation of profit/loss	6,479
	Prepaid amount	97,000
March 31, 2008	Investment Account Balance	<u>17,105,699</u>
	Capital Contributions	948,054
	Allocation of profit/loss	539,815
	Prepaid amount	(97,000)
March 31, 2009	Investment Account Balance	18,496,568
	Cash distributions	(448,933)
	Allocation of profit/loss	141,143
September 30, 2009	Investment Account Balance	<u>\$ 18,188,778</u>

An investment in a northwest British Columbia geothermal prospect totaling \$4,965 and \$4,965 for the years ended September 30, 2009 and March 31, 2009 is also recorded on the balance sheet as an investment in subsidiary in addition to the investment in Raft River Energy I LLC.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

During the three months ended September 30, 2009, the Company primarily focused on drilling activities at Neal Hot Springs, Oregon. Well No. 5 at Neal Hot Springs (“NHS-5”) was substantially completed in October 2009. At September 30, 2009, construction in progress on NHS-5 amounted to over \$741,000. The Company is planning to construct a new power plant on land that was acquired during the quarter in San Emidio, Nevada for approximately \$262,000. Costs were incurred at San Emidio, Nevada for plant and well improvements that amounted to over \$71,000.

During the three months ended June 30, 2009, costs were incurred at San Emidio, Nevada for plant improvements and a transmission line study which amounted to over \$37,000 and \$10,200; respectively. Expenditures that amounted to over \$63,900 were made for studies, engineering, permitting and design activities to support the Neal Hot Springs, Oregon project.

Property, plant and equipment categories are summarized as follows:

	September 30, 2009	March 31, 2009
Land	\$ 652,507	\$ 384,000
Power production plant	1,520,376	1,329,527
Wells	3,617,312	3,617,312
Furniture and equipment	732,394	704,887
	<u>6,522,589</u>	<u>6,035,726</u>
Less: accumulated depreciation	<u>(1,035,718)</u>	<u>(686,471)</u>
	5,486,871	5,349,255
Construction in progress	<u>8,595,103</u>	<u>7,807,445</u>
	<u>\$ 14,081,974</u>	<u>\$ 13,156,700</u>

The construction in progress consists of development activities at Raft River Unit 2, Idaho, Neal Hot Springs, Oregon and San Emidio, Nevada.

Depreciation expense was charged to operations for the following periods:

	September 30, 2009	September 30, 2008
Three months ended	\$ 180,647	\$ 182,624
Six months ended	\$ 353,647	\$ 280,987

NOTE 6 – INTANGIBLE ASSETS

Intangible assets are summarized as follows:

	September 30, 2009	March 31, 2009
Surface water rights	\$ 4,766,864	\$ 4,766,341
Geothermal and mineral rights	11,686,549	11,670,371
	<u>16,453,413</u>	<u>16,436,712</u>
Less: accumulated amortization	<u>(390,330)</u>	<u>(252,566)</u>
	<u>\$ 16,063,083</u>	<u>\$ 16,184,146</u>

	September 30, 2009	September 30, 2008
Three months ended	\$ 68,882	\$ 45,921
Six months ended	\$ 137,763	\$ 114,803

NOTE 7 - CAPITAL LEASE OBLIGATION

Effective November 10, 2008, the Company entered into a capital lease obligation for the purchase of a forklift that is payable in monthly payments of \$1,193 including interest to Wells Fargo Equipment, Inc. The contract includes a purchase option of \$5,345 the end of the lease term scheduled for November 2012. The schedule of minimum lease payments is as follows:

Period Ended September 30,	Principal	Interest	Totals
2010	\$ 11,413	\$ 2,903	\$ 14,316
2011	12,284	2,032	14,316
2012	13,217	1,099	14,316
2013	7,644	87	7,731
	<u>\$ 44,558</u>	<u>\$ 6,121</u>	<u>\$ 50,679</u>

NOTE 8 – PROMISORY NOTE PAYABLE

The company has purchased 40 acres of land and buildings on property adjacent to our San Emidio power plant facility. The note for \$230,000 is payable in 24 successive monthly installments commencing on the second month following the date of disbursement. The first 23 payments consist of interest only on the outstanding principal at 3.25% per annum. The entire principal and the accrued interest are due on the final payment. The note is unsecured. In the event of an assignment for the benefit of creditors, application for the appointment of a receiver or filing of a voluntary or involuntary petition in bankruptcy by or against the Company, the holder may declare this note immediately due and payable in full.

NOTE 9 – SUBSCRIPTION RECEIPTS/STOCK ISSUABLE

The Company has entered into an agreement to privately place approximately 8,100,000 Subscription Receipts (“Receipt”) at \$1.35 CDN per Receipt for gross proceeds of approximately \$10,935,000 CDN. Each Receipt will be automatically exchanged, without additional consideration on the exchange date for one (“Unit”) of the Company. Exchange date will be the earlier of the date on which the receipt of a final

prospectus to qualify the Common Stock and Warrants issuable upon exercise of the Subscription Receipts or four months and one day after the closing of the offering. The offering closed on August 17, 2009. Each Unit consists of one share of common stock of the Company and one half of one common stock purchase warrant (a "Warrant"). Each Warrant will entitle the holder thereof to acquire one additional share of common stock of the Company for a period of 24 months following the closing of the offering for \$1.75 per share of common stock.

NOTE 10 - CAPITAL STOCK

The Company is authorized to issue 250,000,000 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.

During the quarter ended September 30, 2009, the Company issued 48,000 common shares to employees of the Company upon exercise of stock options at a strike price of \$0.92.

During the quarter ended March 31, 2009, the Company verified an adjustment of 5 shares required for entitlement shares to be issued for the stock consolidations of Consolidated Mango (1999) and US Cobalt (2003) shares. These shares remain in escrow until the Consolidated Mango and US Cobalt shares are redeemed for U.S. Geothermal Inc. common shares.

During the quarter ended December 31, 2008, the Company issued 22,134 common shares to an officer of the Company upon exercise of stock options at a strike price of \$0.60 CDN.

During the quarter ended June 30, 2008, the Company entered into an agreement with a Canadian investment dealer, in which an underwriter agreed to purchase 4,260,000 units of the Company's equity interests. Each unit comprised one common share of the Company's stock and one half of one common share purchase warrant. The initial offering, completed on April 28, 2008, generated gross proceeds \$10,011,000 CDN (approximately \$10,154,458) at a price of \$2.35 CDN per share. Each warrant will entitle the holder the right to acquire one additional common share of the Company for a period of 24 months following the closing of the offering for \$3.00 per share. In addition, the Underwriters exercised their option to purchase an additional 2,122,500 units at the issue price of the offering, resulting in the issuance of a total of 6,382,500 units for aggregate gross proceeds of approximately \$15 million CDN.

During the quarter ended June 30, 2008, the Company issued 290,000 common shares at a price of \$2.70 per share to the Kosmos Company in exchange for a favorable amendment to the existing royalty agreement. The royalty agreement is applicable to the operations of the newly acquired San Emidio plant.

NOTE 11 - STOCK BASED COMPENSATION

The Company has a stock option plan (the "Stock Option Plan") for the purpose of attracting and motivating directors, officers, employees and consultants of the Corporation and advancing the interests of the Corporation. The Stock Option Plan is a 10% rolling plan approved by shareholders in September 2006, whereby the Company can grant options to the extent of 10% of the current outstanding common shares. Under the plan, all forfeited and exercised options can be replaced with new offerings. As of September 30, 2009, the Company can issue stock option grants totaling up to 6,208,188 shares. 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, with 25% vesting on the date of grant and 25% vesting every six months thereafter. Effective April 1, 2007, all grants will be stated in U.S. dollars. The Company recognizes compensation expense using the straight-line method of amortization. Historically, the Company has issued new shares to satisfy exercises of stock options and the Company expects to issue new shares to

satisfy any future exercises of stock options. At September 30, 2009, the Company had 5,986,250 options granted and outstanding.

During the quarter ended September 30, 2009, the Company granted 80,000 stock options to employees exercisable at a price of \$1.58 until September 23, 2014.

During the quarter ended June 30, 2009, the Company granted 1,795,000 stock options to employees and consultants exercisable at a price of \$0.92 until May 26, 2014.

The following table reflects the summary of stock options outstanding at March 31, 2008 and changes during the year ended March 31, 2009 and the six months ended September 30, 2009:

	Number of shares under options	Weighted Average Exercise Price Per Share	Weighted Average Fair Value	Aggregate Intrinsic Value
Balance outstanding, March 31, 2008	2,899,878	\$ 1.35 CDN	\$ 1.17	\$ 3,401,421
Forfeited	(238,494)	0.98	0.63	(151,013)
Exercised	(22,134)	0.60 CDN	0.28	(6,093)
Granted	1,600,000	2.19	1.22	1,952,000
Balance outstanding, March 31, 2009	4,239,250	1.62	1.23	5,196,315
Forfeited	(80,000)	2.34	0.90	(71,906)
Granted	1,795,000	0.92	0.71	1,268,585
Balance outstanding, June 30, 2009	5,954,250	1.45	1.07	6,392,994
Exercised	(48,000)	0.92	0.70	(33,504)
Granted	80,000	1.58	1.04	31,100
Balance outstanding, September 30, 2009	5,986,250	\$ 1.46	1.07	\$ 6,390,590

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model using the assumptions noted in the following table. Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option volatility within the Black-Scholes model. The expected term of options granted represents the period of time that options granted are expected to be outstanding, based upon past experience and future estimates and includes data from the Plan. The risk-free rate for periods within the expected term of the option is based upon the U.S. Treasury yield curve in effect at the time of grant. The Company currently does not foresee the payment of dividends in the near term.

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 assumptions used to calculate the fair value are as follows:

	Six Months Ended September 30, 2009	Year Ended March 31, 2009
Dividend yield	0	0
Expected volatility	72-93%	71-82%
Risk free interest rate	0.46-1.32%	1.74-2.23%
Expected life (years)	3.00	3.25

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.

The following table summarizes information about the stock options outstanding at September 30, 2009:

OPTIONS OUTSTANDING				
EXERCISE PRICE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF OPTIONS EXERCISABLE	INTRINSIC VALUE
\$ 0.72 CDN	12,500	0.08	12,500	\$ 5,325
0.90 CDN	237,500	0.08	237,500	118,332
1.00 CDN	1,443,000	1.50	1,443,000	1,465,385
1.15 CDN	78,750	1.83	78,750	86,626
1.40 CDN	157,500	2.33	157,500	139,271
0.92	1,747,000	4.65	400,750	283,223
1.78	95,000	3.98	71,250	60,879
2.22	1,475,000	3.62	1,106,250	1,348,958
2.41	660,000	2.83	660,000	466,274
1.58	80,000	4.67	20,000	7,775
\$ 1.46	5,986,250	3.14	4,187,500	\$ 3,982,048

The following table summarizes information about the stock options outstanding at March 31, 2009:

OPTIONS OUTSTANDING				
EXERCISE PRICE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF OPTIONS EXERCISABLE	INTRINSIC VALUE
\$ 0.72 CDN	12,500	0.58	12,500	\$ 5,325
0.90 CDN	237,500	0.58	237,500	118,332
1.00 CDN	1,443,000	2.00	1,443,000	1,465,385
1.15 CDN	78,750	2.33	78,750	86,626
1.40 CDN	157,500	2.83	157,500	139,271
1.78	95,000	4.48	47,500	40,586
2.22	1,505,000	4.12	752,500	917,596
2.41	710,000	3.33	710,000	501,598
\$ 1.62	4,239,250	2.98	3,439,250	\$ 3,274,719

A summary of the status of the Company's nonvested stock options outstanding at March 31, 2008 and changes during the fiscal year ended March 31, 2009 and the six months ended September 30, 2009 are presented as follows:

	Number of Options	Weighted Average Grant Date Fair Value Per Share	Weighted Average Grant Date Fair Value
Nonvested, March 31, 2008	419,375	\$ 1.12 CDN	\$ 1.43
Granted	1,600,000	2.19	1.22
Vested	(980,881)	2.25	1.26
Forfeited	(238,494)	0.98	0.63
Nonvested, March 31, 2009	800,000	2.19	1.20
Granted	1,795,000	0.92	0.71
Vested	(752,500)	1.44	0.92
Forfeited	(80,000)	2.34	0.90
Nonvested, June 30, 2009	1,762,500	1.22	0.81
Granted	80,000	1.58	1.04
Vested	(43,750)	1.69	0.64
Nonvested, September 30, 2009	1,798,750	1.22	0.80

As of September 30, 2009, there was \$823,793 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.5 years. The total fair value of options vested at September 30, 2009 and at March 31, 2009 was \$1,045,951 and \$1,614,789; respectively.

Stock Purchase Warrants

At September 30, 2009, broker warrants at an exercise price of \$2.34 totalled 191,475 and share purchase warrants for purchase of 3,191,250 shares at an exercise price of \$3.00 remained outstanding. These warrants expire April 28, 2010.

NOTE 12 – FAIR VALUE MEASUREMENT

On April 1, 2008, the Company adopted the provisions related to its financial assets and liabilities measured at fair value on a recurring basis. Current U.S. generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these

assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 – Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to the Company’s needs.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following table discloses by level within the fair value hierarchy the Company’s assets and liabilities measured and reported on the Consolidated Balance Sheet as of September 30, 2009 at fair value on a recurring basis:

	Total	Level 1	Level 2	Level 3
Assets:				
Money market accounts	\$ 9,949,223	\$ 9,949,223	\$ -	\$ -
Investment in equity securities	267,582	-	267,582	-
	<u>\$ 10,216,805</u>	<u>\$ 9,949,223</u>	<u>\$ 267,582</u>	<u>\$ -</u>

As allowed by current financial reporting standards, the Company as elected not to implement fair value recognition and reporting for all non-financial assets and non-financial liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis, that is, at least annually.

Changes in level 3 assets measured at fair value on a recurring basis for the six months ended September 30, 2009:

	Amounts
Investment in equity securities:	
Balance at March 31, 2009	\$ 150,169
Purchases	-
Realized gains/losses	-
Foreign exchange loss	11,156
Unrealized gain included in other comprehensive income	106,257
Transfer out of classification	<u>(267,582)</u>
Balance at September 30, 2009	<u>\$ -</u>

The equity securities purchased in June 2008 are actively traded on a stock exchange; however, the securities held by the Company are subject to trading restrictions. Therefore, the investment was moved from level 3 to level 2.

NOTE 13 - RELATED PARTY TRANSACTIONS

At September 30, 2009 and March 31, 2009, the amounts of \$1,103 and \$2,491, respectively, are payable to directors and officers of the Company. These amounts are unsecured and due on demand.

The Company's subsidiary Raft River Energy I, LLC owed the Company \$910,649 and \$271,475 at September 30, 2009 and March 31, 2009; respectively, for operating and maintenance expenses. The receivable balance is comprised of unsecured demand obligations due within twelve months. During the six months ended September 30, 2009 and the year ended March 31, 2009, the Company received the following revenues from RREI:

	Six Months Ended September 30, 2009	Year Ended March 31, 2009
Management fees	\$ 125,000	\$ 250,000
Lease and royalties	51,984	97,098
	<u>\$ 176,984</u>	<u>\$ 347,098</u>

The Company incurred the following transactions with directors and officers:

	Six Months Ended September 30, 2009	Year Ended March 31, 2009
Director fees	\$ 30,000	\$ 60,000

NOTE 14 - 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 ("U.S. GAAP"). The material difference in respect to these financial statements between U.S. GAAP 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.) were 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:

Consolidated Balance Sheets	U.S. GAAP September 30, 2009	Canadian GAAP September 30, 2009	U.S. GAAP March 31, 2009	Canadian GAAP March 31, 2009
Plant, Property and Equipment	\$ 14,081,974	\$ 14,522,585	\$ 13,156,700	\$ 13,597,311
Intangible Assets	16,063,083	16,063,083	16,184,146	16,184,146
Total Assets	60,471,211	60,911,822	52,451,343	52,891,954
Stockholders' Equity	56,751,175	57,191,786	49,337,863	49,778,474
Total Liabilities and Stockholders' Equity	\$ 60,471,211	\$ 60,911,822	\$ 52,451,343	\$ 52,891,954

Consolidated Statements of Operations and Comprehensive Loss	U.S. GAAP Six Months Ended September 30, 2009	Canadian GAAP Six Months Ended September 30, 2009	U.S. GAAP Year ended March 31, 2009	Canadian GAAP Year ended March 31, 2009
Loss from Operations	\$ (2,990,628)	\$ (2,990,628)	\$ (5,324,666)	\$ (5,324,666)
Net Loss	\$ (2,926,493)	\$ (2,926,493)	\$ (5,187,754)	\$ (5,187,754)

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Operating Lease Agreements

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 and for Neal Hot Springs. The Company incurred total lease expenses for six months ended September 30, 2009 and the year ended March 31, 2009, totaled \$113,189 and \$100,128; respectively.

BLM Lease Agreements

Idaho

On August 1, 2007, the Company signed a geothermal resources lease agreement with the United States Department of the Interior Bureau of Land Management (“BLM”). The contract requires an annual payment of \$3,502 including processing fees. The primary term of the agreement is 10 years. After the primary term, the Company has the right to extend the contract. BLM has the right to terminate the contract upon written notice if the Company does not comply with the terms of the agreement.

San Emidio

The lease contracts are for approximately 21,905 acres of land and geothermal rights located in the San Emidio Desert, Nevada. The lease contracts have primary terms of 10 years. Per federal regulations applicable for the contracts, the lessee has the option to extend the primary lease term another 40 years if the BLM does not need the land for any other purpose and the lessee is maintaining production at commercial quantities. The leases require the lessee to conduct operations in a manner that minimizes adverse impacts to the environment.

Gerlach

The Gerlach Geothermal LLC assets are comprised of two BLM geothermal leases and one private lease totaling 3,615 acres. Both BLM leases have a royalty rate is based upon 10% of the value of the resource at the wellhead. The amounts are calculated according to a formula established by Minerals Management Service (“MMS”). One of the two BLM leases has a second royalty commitment to a third party of 4% of gross revenue for power generation and 5% for direct use based on BTUs consumed at a set comparable price of \$7.00 per million BTU of natural gas. The private lease has a 10 year primary term and would receive a royalty of 3% gross revenue for the first 10 years and 4% thereafter.

Granite Creek

The Company has three geothermal lease contracts with the BLM for the Granite Creek properties. The lease contracts are for approximately 5,414 acres of land and geothermal water rights located in North Western Nevada. The lease contracts have primary terms of 10 years. Per federal regulations applicable for the contracts, the lessee has the option to extend the primary lease term another 40 years if the BLM does not need the land for any other purpose and the lessee is maintaining production at commercial quantities. The leases state annual lease payments of \$5,414, not including processing fees, and expire October 31, 2012.

Office Lease

The Company entered into a 3 year lease contract effective January 1, 2008 through January 31, 2011, for general office space for an executive office located in Boise, Idaho. The lease payments are due in monthly installments that start at \$5,637 per month and increase annually to \$5,981 per month.

The following is the total contracted lease obligations (operating leases, BLM lease agreements and office lease) for the next five fiscal years:

<u>Year Ending March 31,</u>	<u>Amount</u>
2010	\$ 143,377
2011	134,258
2012	74,713
2013	49,103
2014	46,599
Thereafter	98,791

Power Purchase Agreements

The Company has signed a power purchase agreement with Idaho Power Company for sale of power generated from its subsidiary Raft River Energy I, LLC. 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 will govern the operational revenues for the initial phases of the Company's operating activities.

The Company signed a power purchase agreement on March 12, 2008 with Eugene Water and Electric Board for the planned phase two power plant at Raft River, Idaho. The agreement allows for variable output up to a maximum of 16 megawatts with a term of 25 years. The agreement is subject to successful drilling and resource development.

As a part of the purchase of the assets from Empire Geothermal Power, LLC and Michael B. Stewart acquisition ("Empire Acquisition"), a power purchase agreement with Sierra Pacific Power Company was assigned to the Company. The contract has a stated expected output of 3,250 kilowatts maximum per hour and extends through 2017. All power produced will be purchased and there are no penalties for not meeting or exceeding expected output levels.

Construction Contract

On December 5, 2005, the Company signed a contract (the "Ormat EPC Agreement") with Ormat Nevada, Inc. ("Ormat") for Ormat to construct a 13 megawatt geothermal power plant at Raft River, Idaho. As part of the Agreement, Ormat has guaranteed certain performance specifications and plant components. As of September 30, 2009, the Company retains \$75,000 for release to Ormat upon Ormat's completion of certain punch list items, namely, the repairs to the grounding grid and the reduction of the oversplash of water in the cooling tower. As a result of negotiations, Ormat issued a credit of \$200,000 against an outstanding invoice. The Company paid the net amount due less the \$200,000 and \$75,000 retainage to secure release of a lien on the project filed by Ormat.

NOTE 16 – JOINT VENTURES

Raft River Energy I LLC

Raft River Energy I is a joint venture between the Company and Raft River I Holdings, LLC a subsidiary of Goldman Sachs Group, Inc. An Operating Agreement governs the rights and responsibilities of both parties. At fiscal year end, the Company had contributed approximately \$17.9 million in cash and property, and Raft River I Holdings, LLC has contributed approximately \$34 million in cash. Profits and losses are allocated to the members based upon hypothetical liquidation at book value method. For

income tax purposes, Raft River I Holdings, LLC will receive a greater proportion of the share of losses and other income tax benefits. This includes the allocation of production tax credits, which will be distributed 99% to Raft River I Holdings, LLC and 1% to the Company during the first 10 years of production. During the initial years of operations Raft River I Holdings, LLC will receive a larger allocation of cash distributions. During the initial term of the agreement, the Company accounts for its investment in this LLC under the equity method as a voting interest entity.

Gerlach Geothermal LLC

On April 28, 2008, the Company formed Gerlach Geothermal, LLC (“Gerlach”) with our partner, Gerlach Green Energy, LLC (“GGE”). The purpose of the joint venture is the exploration of the Gerlach geothermal system, which is located in northwestern Nevada, near the town of Gerlach. Based upon the terms of the members’ agreement, the company owns a 60% interest and GGE owns a 40% interest in Gerlach Geothermal, LLC. The agreement gives GGE an option to maintain its 40% ownership interest as additional capital contributions are required. If GGE dilutes to below a 10% interest, their ownership position in the joint venture would be converted to a 10% net profits interest. The Company has contributed \$746,000 in cash and \$300,000 for a geothermal lease and mineral rights; and the GGE has contributed \$697,000 of geothermal lease, mineral rights and exploration data.

The consolidated financial statements reflect 100% of the assets and liabilities of Gerlach, and report the current non-controlling interest of GGE. The full results of Gerlach’s operations will be reflected in the statement of operations with the elimination of the non-controlling interest identified.

NOTE 17 – SUBSEQUENT EVENTS

The Company has evaluated events and transactions that have occurred after the balance sheet date through November 9, 2009, which is considered to be the issuance date. The following event was identified for disclosure:

Neal Hot Springs Project

At our Neal Hot Springs project, an infill geophysical program was carried out to increase the density of data to highlight suspected geologic targets and structures. Applications for four additional exploration wells to further delineate the geothermal resource with production and injection targets were approved by the state of Oregon. On October 15, 2009, the Company successfully completed well NHS-5, the second full size production well at the Neal Hot Springs project. Both wells were instrumented with pressure and temperature equipment during the flow test. Geologic information and flow data from the drilling and flow test is being incorporated into the ongoing development of a reservoir model of the Neal Hot Springs geothermal system. In addition to the drilling program for production-sized wells, the Company has a temperature gradient (“TG”) drilling program underway utilizing a small diameter drill hole. Five TG holes are already providing valuable temperature gradient data for the overall area that hosts the Neal Hot Springs reservoir.

The Company received the Conditional Use Permit from the Malheur County Planning Commission for construction of its proposed 22 net megawatt power plant at Neal Hot Springs in eastern Oregon. The Conditional Use Permit received unanimous approval at a September 24, 2009 Planning Commission meeting and was issued on October 28, 2009. The Company anticipates receipt of a term sheet for a project loan from the U.S. Department of Energy for the Neal Hot Springs project which is currently undergoing due diligence review. Work also continues on a draft power purchase agreement that is projected to be completed soon. The \$106 million project is expected to qualify for about \$27 million under the ITC cash grant program and is currently planned to be online by the fourth quarter of 2011.

San Emidio – Department of Energy Grant

On October 30, 2009, the Company was awarded \$3.77 million in Recovery Act funding for the exploration and development of its San Emidio geothermal power project using advanced geophysical exploration techniques. This award was categorized under the “Innovative Exploration and Drilling

Projects” section of the American Recovery and Reinvestment Act. The project at San Emidio will apply innovative, seismic and satellite imagery techniques along with state-of-the-art structural modeling, to locate large aperture fractures that represent high-productivity geothermal drilling targets.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

With the exception of historical facts, the statements contained in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect our current expectations and beliefs regarding our future results of operations, performance and achievements. These statements are subject to risks and uncertainties and are based upon assumptions and beliefs that may or may not materialize. Forward-looking statements may be identified by words such as “may”, “should”, “anticipates”, “expects”, “believes”, “plans”, “predicts” and similar terms. These forward-looking statements include, but are not limited to, statements concerning our strategy, operating forecasts, and our working capital requirements and availability. Forward-looking statements are not guarantees of future performance, and are subject to various risks and uncertainties that could cause our actual results and outcomes to differ materially from those discussed or anticipated, including the factors set forth in the section entitled “Risk Factors” included in our Annual Report on Form 10-K for the year ended March 31, 2009 and our other filings with the Securities and Exchange Commission. We also wish to advise readers not to place any undue reliance on the forward-looking statements contained in this report, which reflect our beliefs and expectations only as of the date of this report. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances or any changes in our beliefs or expectations, other than as required by law.

The U.S. dollar is the Company's functional currency; however some transactions involved the Canadian dollar. All references to “dollars” or “\$” are to United States dollars and all references to \$ CDN are to Canadian dollars.

General Background and Discussion

The following discussion should be read in conjunction with our audited consolidated financial statements for the year ended March 31, 2009 and notes thereto included in this report.

U.S. Geothermal Inc. (“the Company”) is a Delaware corporation. The Company's common shares began trading on the Toronto Stock Exchange (“TSX”) on October 1, 2007 and ceased trading on the TSX Venture Exchange on September 28, 2007. Our Company's common shares trading symbol has been and continues to be “GTH” in Canada. From June 3, 2005 to April 15, 2008, the common stock of U.S. Geothermal Inc. was quoted on the Over-The-Counter Bulletin Board under the trading symbol “UGTH”. Effective April 14, 2008, the common stock of U.S. Geothermal Inc. began trading on the NYSE Amex LLC (“NYSE”) under the trade symbol “HTM.”

For the quarter year ended September 30, 2009, the Company was focused on:

- 1) optimizing the operation of the wellfield at the Raft River, Idaho geothermal project (“Raft River Unit I”);
- 2) planning and permitting for drilling at the Gerlach Joint Venture;
- 3) planning and permitting drilling and field development activities at Neal Hot Springs in Oregon;
- 4) negotiating a PPA for the Neal Hot Springs Project and the San Emidio Repower Project;
- 5) optimizing the operation of the San Emidio (formerly Empire) power plant in Nevada, and planning for repowering the existing plant;
- 6) continuing due diligence for the Department of Energy Section 1703 loan guarantee program for the Neal Hot Springs Project; and
- 7) the evaluation of potential new geothermal project acquisitions.

With carbon regulation widely anticipated to increase the cost of power sourced from coal, and limited opportunities to purchase baseload geothermal power, the Company has found that utilities across the Western United States have been eager to discuss power purchases from the Raft River geothermal

resource. As a result of the increased interest, the Company elected to withdraw its Unit II and Unit III Idaho Power PPAs without submitting them to the Idaho Public Utility Commission (“IPUC”) for approval in order to pursue larger capacity PPAs with other utilities. With the concurrence of Idaho Power, the Unit II and Unit III 10 megawatt contracts were voided without further obligation on either party.

In addition, the strong regional interest in geothermal power has resulted in several utilities from California to Washington entering into discussions with the Company for the purchase of the electrical power output of Unit III. Subject to confirmation of sufficient geothermal resource by drilling, the power plant output from three units at Raft River would be 39 megawatts, instead of the maximum 30 megawatts under the previous Idaho Power PPA provisions.

Raft River Unit I operated through the period at 96.8 percent availability and generated in a range of 7.1 to 10.0 net megawatts during the three month period averaging 8.2 megawatts. The reduction in output for the period was due to the loss of temperature from production well RRG-7, the mechanical failures in well RRG-1 and to increased seasonal temperatures.

In early January 2009, production well RRG-7 underwent a temperature decline that has reduced the inlet fluid temperature to the power plant by approximately 4 degrees Fahrenheit. At the same time of the temperature change, fluid flow increased. Power generation has been reduced by an estimated 1 megawatt due to the lower temperature fluid. It was determined that the cement in a lap joint had failed and a mechanical packer was installed to reduce the cold water inflow, but was unsuccessful. A remediation program is planned that will “squeeze” cement into the lap joint and plug off the cold water flow to return the well temperature and increase power plant generation.

Production well RRG-1 experienced two mechanical breakdowns which reduced power generation for the plant. The first breakdown occurred in early June, when the production casing separated at a threaded joint and the pump and casing had to be pulled and replaced. The second breakdown occurred in late August when the pump suffered a mechanical failure. In total, 48 days of production were lost due to the mechanical problems in well RRG-1.

The Company has been selected by the U.S. Department of Energy (“DOE”) to enter into due diligence review on an \$85 million project loan for its Neal Hot Springs project in eastern Oregon. The DOE loan is expected to provide 80% of the \$106 million estimated total capital cost. Construction of a binary cycle power plant utilizing significantly improved technology is expected to begin in mid 2010. The new plant, designed to deliver 22 megawatts (“MW”) of power net to the grid, is scheduled to begin commercial operations in late 2011. The DOE loan is anticipated to be a combined construction and long term loan and provide the project with a low cost annual interest rate.

On February 26, 2009 U.S. Geothermal submitted an application for the Neal Hot Springs project to the DOE’s Energy Efficiency, Renewable Energy and Advanced Transmission and Distribution Solicitation loan guarantee program under Title XVII of the Energy Policy Act of 2005. The company was notified that its project application is complete, the power plant technology choice qualifies as new or improved under the program, and the project has been selected to proceed in the project loan process.

The renewable energy is expected to be sold under a long term power purchase agreement that is currently under advanced negotiations.

As we enter into due diligence with the DOE on this important \$85 million loan we can now work to complete the balance of the project requirements necessary to construct an advanced and highly efficient geothermal power plant.”

At our Neal Hot Springs project, an infill geophysical program was carried out to increase the density of data to highlight suspected geologic targets and structures. Applications for four additional exploration wells to further delineate the geothermal resource with production and injection targets were approved by

the state of Oregon on September 11th and drilling of the second production well, NHS-5, began on September 18th. October 15th, the Company successfully completed well NHS-5, the second full size production well at the Neal Hot Springs project located in eastern Oregon. NHS-5 encountered several lost circulation zones within the targeted horizon and intercepted a large aperture fracture at 2,796 feet resulting in a total loss of circulation. The well was completed to a depth of 2,896 feet. An initial 16 hour flow test completed using air lift produced fluid at a rate of 1,500 gallons per minute and resulted in a down hole flowing temperature of 286° F (141° C). The reservoir-hosting fracture zone intersected in NHS-5 is 509 feet deeper in the geologic system than the large producing fracture intersected by NHS-1 which is located approximately 600 feet to the southeast. Both wells were instrumented with pressure and temperature equipment during the flow test. Geologic information and flow data from the drilling and flow test is being incorporated into the ongoing development of a reservoir model of the Neal Hot Springs geothermal system.

In addition to the drilling program for production-sized wells, the company has a temperature gradient (“TG”) drilling program underway utilizing a small diameter drill hole. Five TG holes ranging in depth from 500 to 900 feet have been completed, and are already providing valuable temperature gradient data for the overall area that hosts the Neal Hot Springs reservoir. Currently, another seven TG holes will be drilled with three of the holes expected to reach a depth of 1,500 feet in areas near the identified production zone.

The Company received the Conditional Use Permit from the Malheur County Planning Commission for construction of its proposed 22 net megawatt power plant at Neal Hot Springs in eastern Oregon. The Conditional Use Permit received unanimous approval at a September 24, 2009 Planning Commission meeting and was issued on October 28, 2009. The Company anticipates receipt of a term sheet for a project loan from the U.S. Department of Energy for the Neal Hot Springs project which is currently undergoing due diligence review. Work also continues on a draft power purchase agreement that is projected to be completed soon. The \$106 million project is expected to qualify for about \$27 million under the ITC cash grant program and is currently planned to be online by the fourth quarter of 2011.

All of the Federal Energy Regulatory Commission (“FERC”) mandated transmission studies have been completed by the Idaho Power Company. An interconnection agreement was signed with the Idaho Power Company in February 2009. Private right-of-ways for the transmission line have been acquired and preliminary engineering designs have been initiated. Subsequent to the end of the quarter, the Malheur County Planning Commission approved and issued the Conditional Use Permit for construction of the Neal Hot Springs power plant.

The San Emidio geothermal power plant has been producing power since 1987 and sells electricity to Sierra Pacific Power Corporation under an existing power purchase agreement that extends through 2017. Deeper wells with higher temperatures were drilled in 1994 to supply the plant after output declined due to cooling of the original, shallow production wells. The current configuration of the plant consists of four 1.2 gross megawatt Ormat Energy Converters (“OEC”), five production wells (two wells in use and three on stand by), and four injection wells (three wells in use and one on standby). A cooling tower was added in 1998 to improve summer peak power generation.

Power sales from the San Emidio plant for 2008 averaged 2.3 megawatts. The plant underwent a planned, 6 day maintenance shut down in November to address a number of maintenance issues, including a major cleaning of the cooling tower and cooling tower basin, aligning turbines and gear boxes on OECs and cooling tower, repairing leaking condenser tubes and replace turbine seals. The San Emidio equipment is outdated and has low efficiency compared to current power plant technology.

The pump in production well 75B-16 failed after 5 years of service in late May and was repaired in early June resulting in 13 days of reduced production through the plant. OEC No. 11, one of the four power generation units, was shut down for a turbine rebuild, repair and retubing of the condenser during part of May, all of June and July. With substantial repairs complete, the average generation for the period increased from 2.0 megawatts in June to 2.6 megawatts in August.

A System Feasibility Study was initiated with Sierra Pacific Power Corporation to begin the FERC mandated transmission study process for the San Emidio replacement in July 2008. The study is examining two levels of power generation, 15 megawatts and 45 megawatts, several transmission routes and the costs associated with each level of generation. The System Impact Study, the second phase of interconnection study process, was completed in July and confirmed that the existing transmission system was able to handle up to 15 megawatts of transmission. Subsequent to the end of the quarter, the third phase study, the Interconnection Facilities Study for the 15 megawatt option, was completed in October. A draft interconnection agreement is expected from Sierra Pacific Power before year end.

On October 30, 2009, the Company was awarded \$3.77 million in Recovery Act funding for the exploration and development of its San Emidio geothermal power project using advanced geophysical exploration techniques. This award was categorized under the “Innovative Exploration and Drilling Projects” section of the American Recovery and Reinvestment Act. The project at San Emidio will apply innovative, seismic and satellite imagery techniques along with state-of-the-art structural modeling, to locate large aperture fractures that represent high-productivity geothermal drilling targets.

The Granite Creek assets are comprised of three BLM geothermal leases totaling approximately 5,414 acres (8.5 square miles) located about 6 miles north of Gerlach, Nevada along a geologic structure known to host geothermal features including the Great Boiling Spring and the Fly Ranch Geyser. A first stage gravity geophysical program was completed and will be used to evaluate the resource potential, and help determine where to drill temperature-gradient exploration wells.

In January 2009, Congress extended the federal production tax credit (“PTC”) for renewable energy power plants for all projects initiating commercial production prior to December 31, 2014. The PTC enhances the annual revenues of the projects by about 25 percent per year for the first 10 years. Additionally, Congress provided that for power plants that begin construction before the end of 2010, the Company may elect to use the 30% Investment Tax Credit (“ITC”) in lieu of the PTC. Application for the cash ITC payment may be made 60 days after the start of commercial generation and would be paid directly from the Department of Treasury.

Project Overview

The following is a list of projects that are in operation, under development or under exploration. Projects in operation have producing geothermal power plants. Projects under development have at least a geothermal resource discovery or may have wells in place, but require the drilling of new or additional production and injection wells in order to supply enough geothermal fluid sufficient to operate a commercial power plant. Projects under exploration do not have a geothermal resource discovery occurrence yet, but have significant thermal and other physical evidence that warrants the expenditure of capital in search of the discovery of a geothermal resource. Due to inflation and marketplace increases in the costs of labor and construction materials, previous estimates of property development costs may be low.

We hold a 50% interest in Raft River Energy I LLC, which owns Raft River Unit I (“Unit I”). Construction of Unit I required substantial capital, and partnering with a co-venturer allowed us to share the risks of ownership. The joint venture has also allowed the project to take advantage of production tax credits which would not otherwise have been available to us. When Unit I operates at full capacity of 13 megawatts, we estimate we will receive cash payments totaling approximately \$1.6 million for the first four years of its operations. While Unit I generates at less than full capacity, our annual cash payments from the Raft River I project will be lower. See note 4 “Investment in Subsidiary” in the financial statements for detail of cash payments from RREI.

Projects in Operation

Project	Location	Ownership	Generating Capacity (MW) ⁽¹⁾	Power Purchaser	Contract Expiration
Raft River (Unit I)	Idaho	JV ⁽²⁾	13.0	Idaho Power Company	2032
San Emidio (Existing)	Nevada	100%	3.6	Sierra Pacific Power Corp.	2017

- (1) Based on the designed annual average net output. The actual output of the Raft River Unit I plant currently varies between 7.1 and 10.0 megawatts and output of the Empire plant is approximately 2.6 megawatts.
- (2) As part of the financing package for Unit I of the Raft River project, we have contributed \$13 million in cash and approximately \$1.5 million in property to Raft River Energy I LLC, the Unit I project joint venture company. Raft River I Holdings, LLC, a subsidiary of The Goldman Sachs Group, contributed \$34 million to finance the construction of the project. Additional investment may be required for Unit I to operate at design capacity.

Projects Under Development

Project	Location	Ownership	Target Development (MW)	Projected Commercial Operation Date	Anticipated Power Purchaser
San Emidio (Replacement)	Nevada	100	27	^{1st} Quarter 2011	To be determined
Neal Hot Springs	Oregon	100	26	^{4th} Quarter 2011	Idaho Power
Raft River (Unit II)	Idaho	JV	13	2012/2013	Eugene Water and Electric Board
Raft River (Unit III)	Idaho	100	13	2013/2014	N/A

Additional Properties

Project	Location	Ownership	Target Development (MW)
Gerlach	Nevada	60%	To be determined
Granite Creek	Nevada	100%	To be determined

Resource Details

Property	Property Size (square miles)	Temperature (°F)	Resource Potential (MW)	Depth (Ft)	Technology
Raft River	10.8 ⁽¹⁾	275-302 ⁽²⁾	94.0	4,500-6,000	Binary
San Emidio	35.8	289-305 ⁽²⁾	40.0	1,500-2,000	Binary
Neal Hot Springs	9.6	311-347 ⁽³⁾	N/A	2,500-3,000	Binary

- (1) The resource assessment is based on 6.0 square miles. The remaining acreage was acquired subsequent to the GeothermEx report.
- (2) Actual production temperatures for existing wells.
- (3) Probable reservoir temperature as measured by Teplow and MWH Geo-Surveys Inc with a geothermometer.

Operating Results

For the six months ended September 30, 2009, the Company reported a net loss of \$2.9 million dollars (\$0.05 loss per share) which was consistent with the same period in 2008. Notable favorable variances were noted in salaries and wages, as well as travel and promotional costs. Unfavorable variances were noted in gain from investment in subsidiary and interest income. The operating results improved at the San Emidio plant. Professional and management fees remained high.

Salary and Related Costs

For the six months ended September 30, 2009, our salary costs decreased \$138,481 (28.6%) as compared to the same period in 2008. Two more management/development positions were added; however, a higher percentage salaries and related costs were allocated to the development activities that were primarily incurred for drilling activities at Neal Hot Springs, Oregon (“NHS”). Direct salary costs related to designing, permitting and managing of the project were allocated to the project. The design activities began in March 2009 and on-site work began August 15, 2009, on well NHS-5. For the six months ended September 30, 2009, salaries and related costs allocated to the NHS project amounted to approximately \$183,000. No salary costs were allocated to the NHS project or to similar projects in the same period in 2008.

Travel and Promotional Costs

For the six months ended September 30, 2009, the Company’s travel and promotional costs decreased \$241,281 (185.8%) as compared to the same period in the prior year. Overall, the Company reduced its travel and promotional budget for the 2009-10 fiscal year. A notable cost savings of \$175,000 was realized by canceling services for investor relations services provided by MJD Media LLC.

Gain on Investment in Subsidiary (Raft River Energy I, LLC)

The Company’s portion of the net operating loss of Subsidiary for the six months ended September 30, 2009 was a gain of \$141,143 (\$82,311 for the three months). RREI’s net operating loss was \$2,043,531 for the six months ended September 30, 2009, which was \$1,604,832 higher than loss from the same period in 2008. This was primarily due to both planned and unplanned maintenance and repairs that lead to lower revenues and increased costs. The entire plant was shut down for planned maintenance from April 1, 2009 to April 13, 2009 to replace a turbine damaged during startup. Energy production revenue was down more than \$468,000 for the six months ended September 30, 2009 from the same period in 2008. Energy revenue was down approximately \$371,000 for the six months ended September 30, 2009 from the prior period due to the down time for repairs and a loss in temperature due to a lap joint leaking at one production well. Energy produced in April 2009 was approximately 3.51 million kilowatt hours compared to 6.97 million kilowatt hours produced in April 2008. Repair costs were incurred for a pump failure and issues related a leak in a production pump column that exceeded \$1.4 million. The pump repairs are believed to be substantially complete at September 30, 2009. A chemical treatment cost savings of approximately \$442,000 was realized for the six months ended September 30, 2009 from the same period in 2008 as a result of the installation of the reverse osmosis system.

Quarter Ended:	Total Operating Revenues	Net Income (Loss)	
		Total	U.S. Geothermal Inc.’s Portion
June 27, 2008	\$ 1,127,069	\$ (119,141)	\$ 97,463
September 26, 2008	1,408,357	(319,558)	103,077
December 26, 2008	1,625,010	426,339	120,425
March 27, 2009	1,355,582	(14,170)	109,296
June 30, 2009	812,618	(1,593,224)	58,831
September 30, 2009	1,254,409	(450,307)	82,311

San Emidio, Nevada Plant Energy Sales and Plant Operating Expenses

In the quarter ended June 30, 2008, the Company purchased a geothermal plant and ground water rights located in North Western Nevada. Energy sales and the related plant operating expenses began when the Company took over plant operations effective May 1, 2008. Therefore, the 2008 operating revenues and expenses represent a five month period. For the six months ended September 30, 2009, the San Emidio plant reported a loss of \$635,200 (\$811,063 operating revenues that includes energy credit sales, \$1,446,263 operating expenses). The operating results improved during the last quarter due to operations uninhibited by repair and maintenance activities and to scheduled power rate increases. Energy production sales increased \$297,089 (121.9%) from the quarter ended June 30, 2009 to the quarter ended September 30, 2009. In the quarter ended June 30, 2009, repair costs of over \$112,000 were incurred to rebuild and reinstall a pump. Also, costs that amounted to over \$59,000 were incurred to retube an OEC condenser and to install a new gear box. Due to the plant component repairs, energy production was down for the quarter ended June 30, 2009.

<u>Quarter Ended:</u>	<u>Kilowatt Hours x 1,000</u>	<u>Energy Sales</u>	<u>Net Loss</u>	<u>Depreciation & Amortization</u>
September 30, 2008	5,650	\$ 529,383	\$ (185,838)	\$ 195,046
December 31, 2008	4,097	317,256	(146,859)	196,941
March 31, 2009	3,808	296,577	(267,114)	201,711
June 30, 2009	2,851	243,752	(589,082)	200,972
September 30, 2009	5,224	540,841	(46,118)	207,066

Professional and Management Fees

For the six months ended September 30, 2009, the Company incurred professional and management fees of \$633,006, which is an increase of \$91,118 (16.8%) from the same period in 2008. Professional fees were incurred for legal and accounting services related to the private placement offering (“PIPE”), SOX compliance and responses to SEC comment letters. Legal fees of \$119,316 were paid to Goodman & Associates for assistance with compliance with the PIPE offering. Legal fees of \$134,681 were paid to Dorsey & Whitney, primarily, for matters related to the PIPE offering and responses to the SEC comment letters. Consulting fees of \$75,664 were paid to Hein & Associates, primarily, for SOX compliance. Accounting and consulting fees of \$78,405 were paid to Williams and Webster (now Behler Mick), for services related to financial opinions and responses to the SEC letters of comment.

Off Balance Sheet Arrangements

As of September 30, 2009, the Company does not have any off balance sheet arrangements.

Liquidity and Capital Resources

We believe our cash and liquid investments at September 30, 2009 are adequate to fund our general operating activities through March 31, 2010. Additional funding will be needed to finance the expansion of production volumes at Raft River and the development of the San Emidio, Nevada and Neal Hot Springs, Oregon projects. We anticipate that the additional funding may be raised through the issuance of equity and/or through the sale of ownership interest in tax credits and benefits. A private financing was closed on August 17, 2009, will provide funds to drill three production size wells at Neal Hot Springs to increase production capacity to 22 MW and allow a 30-day flow test to verify the well reservoir capability. Completion of drilling is a condition precedent to the funding from the DOE loan program, if our application is approved. On October 30, 2009, the Company was awarded \$3.77 million in Recovery Act funding for the exploration and development of its San Emidio geothermal power project using advanced geophysical exploration techniques. This award was categorized under the “Innovative Exploration and Drilling Projects” section of the American Recovery and Reinvestment Act. The project

at San Emidio will apply innovative, seismic and satellite imagery techniques along with state-of-the-art structural modeling, to locate large aperture fractures that represent high-productivity geothermal drilling targets.

The current financial credit crisis is not anticipated to impact the ability of our customers, Idaho Power Company and Sierra Pacific Power, to pay for their power. This power is sold under long-term contracts at fixed prices to large utilities. Projections for 2009 indicate that both projects, Raft River and San Emidio, will generate positive cash flows to the Company. However, the current status of the credit and equity markets could delay our project development activities while the Company seeks to obtain economic credit terms or a favorable equity market price to further the drilling and construction activities. The Company continues discussions with potential investors to evaluate alternatives for funding at the corporate and project levels. We are also pursuing available DOE loans and guarantees in order to reduce interest costs for any debt instruments the Company may require. At the current market price for the Company's stock, we do not anticipate that additional funding will result from the exercise of current stock options or warrants.

In these difficult times, the Company has also implemented procedures to conserve cash, reduce costs and maximize revenue. At the corporate level, we have cancelled non-essential consulting contracts and are reducing all non-critical expenditures. At the project level, Raft River and San Emidio are increasing efforts to reduce operating costs and will continue to find additional cost savings. The Company has instituted a wage and salary freeze for all employees effective January 1, 2009. The wage and salary freeze means that we will not be granting merit pay increases until economic conditions improve and we are able to finance the Company in the equity markets. In addition, the Company has required that employees contribute a share of the medical insurance premiums for dependent coverage. The Company will continue to pay 100% of the insurance premiums for the employees.

Potential Acquisitions

The Company intends to continue its growth through the acquisition of ownership or leasehold interests in properties and/or property rights that it believes will add to the value of the Company's geothermal resources, and through possible mergers with or acquisitions of operating power plants and geothermal or other renewable energy properties.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Certain accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been made. We evaluate our estimates and assumptions on a regular basis. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for the financial statements.

See Management's Discussion and Analysis and the financial statements and related footnotes included in our Annual Report on Form 10-K for the year ended March 31, 2009 for a description of our critical accounting policies.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

Interest Risk on Investments

At September 30, 2009, the Company held investments of \$9,949,223 in money market accounts. These are highly liquid investments that are subject to risks associated with changes in interest rates. The money market funds are invested in governmental obligations with minimal fluctuations in interest rates and fixed terms.

Foreign Currency Risk

The Company is subject to limited amount of foreign currency risks associated with cash deposits maintained in Canadian currency. The Company has utilized and it is continuing to utilize the Canadian markets for raising capital. By proper timing of the transactions and then maintenance of adequate operating funds in other financial resources, the Company has been able to mitigate some of the risks surrounding foreign currency exchanges. At fiscal year end, the company held deposits that amounted to less than \$10,000 in U.S. dollar equivalents. As a matter of standard operating practice, the Company does not maintain large balances of Canadian currency; and substantially all operating transactions are conducted in U.S. dollars.

Prior to April 1, 2007, the strike price for the Company's stock option plan had been stated in Canadian dollars as the plan had been administered through our Vancouver office and Pacific Corporate Trust Company. This subjected the Company to foreign currency risk in addition to the normal market risks associated with the stock price fluctuations. A long-term liability has been established to reflect the fair value of the stock options payable. The strike price on subsequent option grants is stated in U.S. dollars.

Commodity Price Risk

The Company is exposed to risks surrounding the volatility of energy prices. These risks are impacted by various circumstances surrounding the energy production from natural gas, nuclear, hydro, solar, coal and oil. The Company has been able to mitigate, to a certain extent, this risk by signing a power purchase contract for a 25 year period for the first power plant scheduled to go into production. This type of arrangement will be the model for power purchase contracts planned for future power plants.

Item 4 - Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended) for the period covered by this report. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms relating to us, including our consolidated subsidiaries, and was accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change to our internal control over financial reporting during the quarter ended September 30, 2009 that has materially affected, or is likely to materially affect, our internal control over financial reporting.

PART II- OTHER INFORMATION

Item 1 - Legal Proceedings

None.

Item 1A - Risk Factors

There have been no material changes in the risk factors presented in our Form 10-K, Item I, Part 1A for the year ended March 31, 2009, except as noted below:

The Company has applied for a loan from the Department of Energy ("DOE") to finance our development at Neal Hot Springs. There is no assurance that we will receive the DOE loan and a delay or failure to receive the loan may delay the development of Neal Hot Springs.

Item 2 - Unregistered Sales Of Equity Securities And Use Of Proceeds

The Company has entered into an agreement to privately place approximately 8,100,000 Subscription Receipts ("Receipt") at \$1.35 CDN per Receipt for gross proceeds of approximately \$10,935,000 CDN. Each Receipt will be automatically exchanged, without additional consideration on the exchange date for one ("Unit") of the Company. Exchange date will be the earlier of the date on which the receipt of a final prospectus to qualify the Common Stock and Warrants issuable upon exercise of the Subscription Receipts or four months and one day after the closing of the offering. The offering closed on August 17, 2009. Each Unit consists of one share of common stock of the Company and one half of one common stock purchase warrant (a "Warrant"). Each Warrant will entitle the holder thereof to acquire one additional share of common stock of the Company for a period of 24 months following the closing of the offering for \$1.75 per share of common stock.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Submission of Matters to a Vote of Security Holders

None.

Item 5 - Other Information

None.

Item 6 - Exhibits And Reports

See the exhibits index to this Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

U.S. GEOTHERMAL INC.
(Registrant)

Date: November 9, 2009

By: /s/ Daniel J. Kunz .
Daniel J. Kunz
President, Chief Executive Officer and
Director

Date: November 9, 2009

By: /s/ Kerry D. Hawley .
Kerry D. Hawley
Chief Financial Officer and Corporate Secretary

EXHIBIT LIST

Exhibit Number	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

U.S. GEOTHERMAL INC.

CERTIFICATION

I, Daniel J. Kunz, certify that:

1. I have reviewed this report on Form 10-Q of U.S. Geothermal Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

- b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 9, 2009

/s/ Daniel J. Kunz
Daniel J. Kunz
Chief Executive Officer

U.S. GEOTHERMAL INC.

CERTIFICATION

I, Kerry D. Hawkley, certify that:

1. I have reviewed this report on Form 10-Q of U.S. Geothermal Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

- a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
- b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 9, 2009

/s/ Kerry D. Hawkley
Kerry D. Hawkley
Chief Financial Officer

U.S. GEOTHERMAL INC.

CERTIFICATION

In connection with the Quarterly report of U.S. Geothermal, Inc. (the "Registrant") on Form 10-Q for the period ended September 30, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel J. Kunz of U.S. Geothermal Inc. certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 9, 2009

/s/ Daniel J. Kunz
Daniel J. Kunz
Chief Executive Officer

U.S. GEOTHERMAL INC.

CERTIFICATION

In connection with the Quarterly report of U.S. Geothermal, Inc. (the “Registrant”) on Form 10-Q for the period ended September 30, 2009, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kerry D. Hawkley of U.S. Geothermal Inc. certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 9, 2009

/s/ Kerry D. Hawkley
Kerry D. Hawkley
Chief Financial Officer