

**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 EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

or

TRANSITION 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 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions 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 stock, as of the latest practicable date.

| <u>Class</u> | <u>Shares Outstanding as of August 9, 2010</u> |
|---|--|
| Common stock, par value \$ 0.001 per share | 78,647,776 |

U.S. Geothermal Inc.
Form 10-Q
For the 1st Quarter Ended June 30, 2010

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Part I- Financial Information

Item 1 - Financial Statements

The financial statements included herein have been prepared by U.S. Geothermal Inc. (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 annual report on Form 10-K for the year ended, March 31, 2010. The results of operations for the three months ended June 30, 2010 and June 30, 2009 are not necessarily indicative of the results to be expected for the fiscal year ending March 31, 2011.

U.S. GEOTHERMAL INC.



Consolidated Financial Statements
June 30, 2010

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

| | (Unaudited) | |
|--|---------------|----------------|
| | June 30, 2010 | March 31, 2010 |
| ASSETS | | |
| Current: | | |
| Cash and cash equivalents | \$ 8,678,340 | \$ 12,970,612 |
| Restricted cash (note 3) | 585,000 | 585,000 |
| Receivable from subsidiary | 537,374 | 335,684 |
| Trade accounts receivable | 273,647 | 176,880 |
| Other current assets | 151,743 | 152,950 |
| Total current assets | 10,226,104 | 14,221,126 |
| Deposit on mineral rights purchase | 200,000 | - |
| Investment in equity securities (note 4) | 192,817 | 210,975 |
| Investment in subsidiaries (note 5) | 18,171,364 | 18,103,239 |
| Property, plant and equipment, net of accumulated depreciation (note 6) | 18,708,297 | 16,550,006 |
| Intangible assets, net of accumulated amortization (note 7) | 17,179,171 | 16,642,515 |
| Total assets | \$ 64,677,753 | \$ 65,727,861 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 721,277 | \$ 446,790 |
| Related party accounts payable | 5,018 | 1,897 |
| Current portion of capital lease obligation | 12,058 | 11,837 |
| Total current liabilities | 738,353 | 460,524 |
| Long-term Liabilities: | | |
| Capital lease obligation, less current portion | 24,014 | 27,108 |
| Stock compensation payable | 1,823,751 | 1,823,751 |
| Promissory note payable (note 10) | 230,000 | 230,000 |
| Total liabilities | 2,816,118 | 2,541,383 |
| Commitments and Contingencies (note 17) | - | - |
| STOCKHOLDERS' EQUITY | | |
| Capital stock: | | |
| Authorized: | | |
| 250,000,000 common shares with a \$0.001 par value | | |
| Issued and outstanding: | | |
| 78,647,776 shares at June 30, 2010 and at | | |
| March 31, 2010 | 78,648 | 78,648 |
| Additional paid-in capital | 83,834,025 | 83,667,011 |
| Accumulated other comprehensive income | 123,321 | 136,693 |
| Accumulated deficit | (22,828,321) | (21,353,761) |
| Total stockholders' equity | 61,207,673 | 62,528,591 |
| Non-controlling interest (note 18) | 653,962 | 657,887 |
| Total stockholders' equity | 61,861,635 | 63,186,478 |
| Total liabilities and stockholders' equity | \$ 64,677,753 | \$ 65,727,861 |

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) | |
|---|-------------------------------------|-----------------------|
| | For the Three Months Ended June 30, | |
| | 2010 | 2009 |
| Operating Revenues: | | |
| Energy sales, San Emidio | \$ 571,646 | \$ 243,752 |
| Land, water, and mineral rights lease | 45,012 | 29,484 |
| Management fees | 62,500 | 62,500 |
| Gain from investment in subsidiary | 73,089 | 59,889 |
| Total operating revenues | 752,247 | 395,625 |
| Operating Expenses: | | |
| Consulting fees | 11,678 | - |
| Corporate administration | 222,300 | 130,701 |
| Professional and management fees | 555,548 | 264,141 |
| Salaries and wages | 470,054 | 256,405 |
| Stock based compensation | 167,014 | 639,852 |
| Travel and promotion | 114,031 | 52,572 |
| Plant operations, San Emidio | 648,271 | 832,834 |
| Lease and equipment repair | 55,275 | 52,137 |
| Total operating expenses | 2,244,171 | 2,228,642 |
| Loss from Operations | (1,491,924) | (1,833,017) |
| Other Income (Loss): | | |
| Foreign exchange gain (loss) | (4,786) | 11,156 |
| Other income | 1,561 | 3,077 |
| Interest income | 16,664 | 10,667 |
| Total other income | 13,439 | 24,900 |
| Net Loss | (1,478,485) | (1,808,117) |
| Net loss attributable to the non-controlling interest | 3,925 | 5,206 |
| Net Loss Attributable to U.S. Geothermal Inc. | (1,474,560) | (1,802,911) |
| Other Comprehensive Income: | | |
| Unrealized gain (loss) on investment in equity securities | (13,372) | 32,265 |
| Comprehensive Loss Attributable to U.S. Geothermal Inc. | \$ (1,487,932) | \$ (1,770,646) |
| Basic And Diluted Net Loss Per Share Attributable to U.S. Geothermal Inc. | | |
| | \$ (0.02) | \$ (0.03) |
| Weighted Average Number of Shares Outstanding for Basic and Diluted Calculations | | |
| | 78,647,776 | 62,033,882 |

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 June 30, | |
| | 2010 | 2009 |
| Operating Activities: | | |
| Net loss | \$ (1,478,485) | \$ (1,808,117) |
| Add non-cash items: | | |
| Depreciation and amortization | 280,458 | 241,881 |
| Gain on operations of subsidiary | (73,089) | (59,889) |
| Foreign exchange (gain) loss | 4,786 | (11,156) |
| Loss on equity investment | 4,964 | - |
| (Gain) loss on disposal of equipment | - | 900 |
| Stock based compensation | 167,014 | 639,852 |
| Change in non-cash working capital items: | | |
| Accounts receivable | (298,457) | (1,321,560) |
| Accounts payable and accrued liabilities | 176,462 | 467,173 |
| Prepaid expenses & other | 1,207 | 1,622 |
| Total cash used by operating activities | <u>(1,215,140)</u> | <u>(1,849,294)</u> |
| Investing Activities: | | |
| Purchases of property, plant and equipment | (2,874,259) | (195,587) |
| Deposit on mineral rights purchase | (200,000) | - |
| Proceeds from sale of equipment | - | 500 |
| Total cash used by investing activities | <u>(3,074,259)</u> | <u>(195,087)</u> |
| Financing Activities: | | |
| Principal payments on capital lease | (2,873) | (2,668) |
| Total cash provided by financing activities | <u>(2,873)</u> | <u>(2,668)</u> |
| Decrease in Cash and Cash Equivalents | (4,292,272) | (2,047,049) |
| Cash and Cash Equivalents, Beginning of Period | 12,970,612 | 3,452,091 |
| Cash and Cash Equivalents, End of Period | \$ 8,678,340 | \$ 1,405,042 |
| Supplemental Disclosures: | | |
| Non-cash investing and financing activities: | | |
| Purchase of property and equipment on account | \$ 101,146 | \$ 15,266 |
| Other Items: | | |
| Interest paid | 9,493 | 912 |

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, 2010 and the Three Months Ended June 30, 2010
(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, 2009 | 62,033,882 | \$ 62,034 | \$ 64,694,849 | \$ - | \$ (15,514,911) | \$ 95,891 | \$ 678,232 | \$ 50,016,095 |
| Stock issued from the exercise of stock options | 304,375 | 304 | 368,110 | - | - | - | - | 368,414 |
| Subscription receipts issued August 17, 2009 (note 9) | - | - | - | 9,120,294 | - | - | - | 9,120,294 |
| Stock issued from subscription receipts on December 17, 2009 (note 9) | 8,100,000 | 8,100 | 9,112,194 | (9,120,294) | - | - | - | - |
| Capital stock issued as result of a private placement closed March 16, 2010, net of issuance costs (note 10) | 8,209,519 | 8,210 | 7,914,186 | - | - | - | - | 7,922,396 |
| Stock based compensation | - | - | 1,577,672 | - | - | - | - | 1,577,672 |
| Unrealized gain on investment | - | - | - | - | - | 40,802 | - | 40,802 |
| Net loss | - | - | - | - | (5,838,850) | - | (20,345) | (5,859,195) |
| Balance at March 31, 2010 | 78,647,776 | 78,648 | 83,667,011 | - | (21,353,761) | 136,693 | 657,887 | 63,186,478 |
| Stock based compensation | - | - | 167,014 | - | - | - | - | 167,014 |
| Unrealized loss on investment | - | - | - | - | - | (13,372) | - | (13,372) |
| Net loss - unaudited | - | - | - | - | (1,474,560) | - | (3,925) | (1,478,485) |
| Balance at June 30, 2010 - unaudited | <u>78,647,776</u> | <u>\$ 78,648</u> | <u>\$ 83,834,025</u> | <u>\$ -</u> | <u>\$ (22,828,321)</u> | <u>\$ 123,321</u> | <u>\$ 653,962</u> | <u>\$ 61,861,635</u> |

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

U.S. GEOTHERMAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(Stated in U.S. Dollars)

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

When U.S. Cobalt Inc. completed a reverse take-over on December 19, 2003, the former stockholders of U.S. Geothermal Inc. a company incorporated on February 26, 2002 in the State of Idaho, U.S.A. acquired control of U.S. Cobalt Inc. In connection with the transaction, U.S. Cobalt Inc. changed its name to U.S. Geothermal Inc. (the "Company") 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.

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.

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, as well as one controlling interest. 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)
- viii) Oregon USG Holdings, LLC (organized in the State of Delaware); and
- ix) U.S. Geothermal Guatemala, S.A.

All intercompany transactions are eliminated upon consolidation.

Raft River Energy I LLC ("RREI"), previously a 100% owned subsidiary, was consolidated through July

2006, after which the entity is recorded under the equity method (note 5).

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 consolidated 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 consolidated 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 consolidated 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 June 30, 2010 and 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 June 30, 2010, the Company held no significant deposits not subject to FDIC insurance. The money market funds totaled \$8,755,486, and are invested in government backed securities and not subject to deposit insurance.

Equity Securities

We determine the appropriate classification of marketable securities at the time of purchase and reevaluate this designation as of each balance sheet date. We classify these securities as either held-to-maturity, trading, or available-for-sale. All marketable securities and restricted investments were classified as available-for-sale securities. The Company classifies its investments as "available for sale" because it does not intend to actively buy and sell for short-term profits. The Company's investments are subject to market risk, primarily interest rate and credit risk. The fair value of investments is determined using observable or quoted market prices for those securities.

Available-for-sale securities are carried at fair value, with unrealized gains and losses included as a component of accumulated other comprehensive income (loss). Realized gains and losses, declines in value judged to be other than temporary and interest on available-for-sale securities are included in net income. The cost of securities sold is based on the specific identification method.

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 5.

Property, Plant and Equipment

Property, plant and equipment, including assets under capital lease, are recorded at historical cost. Costs of acquisition of geothermal properties are capitalized on a geothermal reservoir basis. If a geothermal reservoir is abandoned, the associated costs that have been capitalized are charged to income in the year of abandonment. Major improvements that significantly increase the useful lives and/or capabilities of the assets are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

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 | 3 to 5 |
| Power plant, buildings and improvements | 15 to 30 |
| Wells | 30 |
| Well pumps and components | 5 to 15 |
| Pipelines | 30 |
| Transmission lines | 30 |

Intangible Assets

All costs directly associated with the acquisition of geothermal and water rights are capitalized as intangible assets. These costs are amortized over their estimated utilization period. There are several factors that influence the estimated utilization periods as well as underlying fair value that include, but are not limited to, the following:

- contractual expiration terms of the right,
- contractual terms of an associated revenue contract (i.e., PPAs),
- compliance with utilization and other requirements, and
- hierarchy of other right holders who share the same resource.

Currently, amortization expense is being calculated on a straight-line basis over an estimated utilization period of 30 years for assets placed in service. If an intangible water or geothermal right is forfeited or otherwise lost, the remaining unamortized costs are expensed in the period of forfeiture. An impaired right is reduced to its estimated fair market value in the year the impairment is realized. Costs incurred that extend the term of an intangible right are capitalized and amortized over the new estimated period of utilization.

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 June 30, 2010.

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 consultants 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, 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.

The Company has adopted a standard that states that if certain conditions are present surrounding the issuance of equity instruments as share based compensation, then circumstances may warrant the recognition of a liability for financial reporting purposes. One such condition is present when the Company issued stock options denominated in a foreign currency (Canadian dollars) to employees. Authors of the standard have reasoned that when a condition is present that creates a financial risk to the recipient in addition to normal market risks (i.e., foreign currency translation risk), then the instrument takes on the characteristics of a liability, rather than an equity item. As the underlying stock options are exercised or are forfeited, then the stock based compensation liability will be reduced. The Company's financial statements reflect these changes in the consolidated balance sheet. As the value of the options change over the vesting periods, these changes will ultimately be reflected in the amount of expense charged to operations.

Earnings Per Share

The Company follows 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 June 30, 2010 and March 31, 2010, they were not included in the calculation of earnings per share because their inclusion would have been considered anti-dilutive. Total common stock equivalents at June 30, 2010 and March 31, 2010 were 93,021,693 and 96,404,418; respectively

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.

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. 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. 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.

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

Fair Value Measurements

In January 2010, FASB issued Financial Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("Update 2010-06"). Update 2010-06 is intended to improve disclosures originally defined in accounting standards. Update 2010-06 requires new disclosures summarized as follows:

- 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers.
- 2) Activity in level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements.

The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is still evaluating the impact of this Update. 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. Management expects that it will have an impact on the content of future financial statement disclosures.

Compensation-Stock Compensation

In January 2010, FASB issued Financial Accounting Standards Update 2010-13, *Compensation-Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades*. ("Update 2010-13"). Update 2010-13 provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. Amendments of this Update are effective for fiscal years, and interim periods within those fiscal years beginning on or after December 15, 2010. The Company is still evaluating the impact of this Update. The adoption of this Update may have an impact in the statement of financial position.

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:

| State Agency | June 30, 2010 | March 31, 2010 |
|---|-------------------|-------------------|
| 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>125,000</u> |
| | <u>\$ 585,000</u> | <u>\$ 585,000</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 EQUITY SECURITIES

Investments in equity securities (150,000 shares of a publicly traded geothermal entity) activities consisted of the following:

| | Amount |
|---------------------------------------|-------------------|
| Available-for-sale equity securities: | |
| Cost basis | \$ 88,515 |
| Unrealized gains/losses | 136,693 |
| Foreign exchange losses | <u>(14,233)</u> |
| Fair value at March 31, 2010 | 210,975 |
| Unrealized losses | (13,372) |
| Foreign exchange losses | <u>(4,786)</u> |
| Fair value at June 30, 2010 | <u>\$ 192,817</u> |

NOTE 5 – INVESTMENT IN SUBSIDIARIES

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. RREI 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. Additionally, during the initial years of operations Raft River I Holdings, LLC will receive a larger allocation of cash distributions.

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 June 30, 2010, 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 audited financial information is summarized as follows:

| | As of December 31, 2009 | As of November 28, 2008 |
|------------------------|----------------------------|----------------------------|
| Total current assets | \$ 808,084 | \$ 1,994,238 |
| Property and equipment | 47,993,261 | 50,016,779 |
| | <u>\$ 48,801,345</u> | <u>\$ 52,011,017</u> |
| Total liabilities | \$ 791,116 | \$ 1,434,413 |
| Total members' equity | 48,010,229 | 50,576,604 |
| | <u>\$ 48,801,345</u> | <u>\$ 52,011,017</u> |

| | Year Ended December 31, 2009 | Month Ended December 26, 2008 | Fiscal Year Ended November 28, 2008 | Fiscal Year Ended November 30, 2007 |
|---|------------------------------------|-------------------------------------|--|--|
| Operating revenues | \$ 4,718,949 | \$ 537,831 | \$ 4,880,303 | \$ 96,743 |
| Operating earnings (loss) | (2,278,806) | 352,483 | (528,916) | (929,615) |
| Net earnings (loss) | (2,270,718) | 352,960 | (448,593) | (834,234) |
| U.S. Geothermal Inc., portion of net earnings (loss) | \$ 279,072 | \$ 54,713 | \$ (156,060) | \$ (161,092) |

For the Company's 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 profits and losses.

The Company's investment in the RREI has changed since March 31, 2007 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 | <u>18,496,568</u> |
| | Cash distributions | (722,222) |
| | Allocation of profit/loss | 323,929 |
| March 31, 2010 | Investment Account Balance | <u>18,098,275</u> |
| | Cash distributions | - |
| | Allocation of profit/loss | 73,089 |
| June 30, 2010 | Investment Account Balance | <u><u>\$ 18,171,364</u></u> |

An investment in a northwest British Columbia geothermal prospect totaled \$0 and \$4,965 as of June 30, 2010 and March 31, 2010; respectively. This investment is combined with the investment in Raft River Energy I LLC.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

During the quarter ended June 30, 2010, the Company was primarily engaged in development activities at Neal Hot Springs, Oregon and San Emidio, Nevada. At Neal Hot Springs, costs in excess of \$822,000 were spent on geophysical engineering and plant design, in addition to approximately \$130,700 that was spent on transmission line studies and design. Drilling costs were incurred that exceeded \$487,000 related to the temperature gradient drilling program at Neal Hot Springs. At San Emidio, over \$186,000 was incurred for design and feasibility studies for the proposed power plant and transmission lines. The final payment of \$582,000 to Constellation Energy related to the plant purchase price adjustment was completed in the current quarter. Also, at San Emidio costs of approximately \$99,000 were incurred for geophysical studies and flow testing of well 75-16.

Property, plant and equipment, at cost, are summarized as follows:

| | <u>June 30, 2010</u> | <u>March 31, 2010</u> |
|--------------------------------|----------------------|-----------------------|
| Land | \$ 652,507 | \$ 652,507 |
| Power production plant | 2,275,475 | 1,665,882 |
| Wells | 3,617,312 | 3,617,312 |
| Furniture and equipment | 830,386 | 785,606 |
| | <u>7,375,680</u> | <u>6,721,307</u> |
| Less: accumulated depreciation | <u>(1,608,182)</u> | <u>(1,396,605)</u> |
| | 5,767,498 | 5,324,702 |
| Construction in progress | <u>12,940,799</u> | <u>11,225,304</u> |
| | <u>\$ 18,708,297</u> | <u>\$ 16,550,006</u> |

Changes in Construction in Progress for the three months ended June 30 2010 and the year ended March 31, 2010, at cost, are summarized as follows:

| | <u>Three Months Ended June 30, 2010</u> | <u>Year Ended March 31, 2010</u> |
|------------------------------------|---|--------------------------------------|
| Beginning balances | \$ 11,225,304 | \$ 7,807,445 |
| Current development construction | 1,715,495 | 3,417,859 |
| Transfers into production | - | - |
| Write-off of unsuccessful projects | - | - |
| Ending balances | <u>\$ 12,940,799</u> | <u>\$ 11,225,304</u> |

Construction in Progress, at cost, consisted of the following projects/assets by location at March 31, 2010 and June 30, 2010, as follows:

| | <u>June 30, 2010</u> | <u>March 31, 2010</u> |
|---|--------------------------|---------------------------|
| Raft River, Idaho: | | |
| Unit II, power plant, substation and transmission lines | \$ 738,265 | \$ 733,284 |
| Unit II, well construction | 2,050,326 | 2,085,250 |
| | <u>2,788,591</u> | <u>2,818,534</u> |
| San Emidio, Nevada: | | |
| Power plant (Re-power project) | 146,534 | 50,872 |
| Interconnection studies for transmission line | 167,032 | 76,032 |
| Well construction | 2,777,041 | 2,678,102 |
| | <u>3,090,607</u> | <u>2,805,006</u> |
| Neal Hot Springs, Oregon: | | |
| Two production wells | 5,384,429 | 4,916,905 |
| Buildings and site preparation | 1,355,454 | 493,852 |
| Transmission lines and substation | 321,718 | 191,007 |
| | <u>7,061,601</u> | <u>5,601,764</u> |
| | <u>\$ 12,940,799</u> | <u>\$ 11,225,304</u> |

Depreciation expense charged to operations for the three months ended June 30, 2010 and 2009 amounted to \$211,577 and \$173,000; respectively.

NOTE 7 – INTANGIBLE ASSETS

In April 2010, the Company incurred consulting fees of \$600,000 necessary to acquire the geothermal energy rights concession in Guatemala. The concession area is located 14 miles southwest of Guatemala City. The concession contains 24,710 acres (38.6 square miles) of energy rights located in the center of the Aqua and Pacaya twin volcano complex.

Intangible assets, at cost, are summarized as follows:

| | <u>June 30, 2010</u> | <u>March 31, 2010</u> |
|--------------------------------|----------------------|-----------------------|
| In operation: | | |
| Geothermal and mineral rights | \$ 8,265,800 | 8,265,800 |
| Less: accumulated amortization | <u>(596,974)</u> | <u>(528,093)</u> |
| | 7,668,826 | 7,737,707 |
| Inactive: | | |
| Surface water rights | 5,484,059 | 5,484,059 |
| Geothermal and mineral rights | <u>4,026,286</u> | <u>3,420,749</u> |
| | <u>\$ 17,179,171</u> | <u>\$ 16,642,515</u> |

Amortization expense will increase when the respective intangible assets have been placed into operations. Presently, estimated aggregate amortization expense for the next five fiscal years is as follows:

| Periods Ending June 30, | <u>Projected Amounts</u> |
|-------------------------|------------------------------|
| 2011 | \$ 275,527 |
| 2012 | 275,527 |
| 2013 | 275,527 |
| 2014 | 275,527 |
| 2015 | <u>275,527</u> |
| | <u>\$ 1,377,635</u> |

Amortization expense charged to operations for the three months ended June 30, 2010 and 2009 amounted to \$68,881 and \$68,881; respectively.

NOTE 8 – PROVISION FOR INCOME 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 June 30, 2010, the Company had net deferred tax assets calculated at an expected rate, noted in the table below, of approximately \$5,492,000 (March 31, 2010 - \$4,942,000). 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 June 30, 2010 and 2009.

The significant components of the net deferred tax asset calculated with the estimated effective income tax rate at June 30, 2010 and March 31, 2009 were as follows:

| | June 30, 2010 | March 31, 2010 |
|--|------------------|-------------------|
| Deferred tax assets*: | | |
| Net operating loss carry forward | \$ 5,425,000 | \$ 4,924,000 |
| Stock based compensation | 578,000 | 515,000 |
| Deferred tax liabilities*: | | |
| Depreciation and amortization | (511,000) | (497,000) |
| Net deferred income tax asset | 5,492,000 | 4,942,000 |
| Deferred tax asset valuation allowance | (5,492,000) | (4,942,000) |
| Net deferred tax asset | <u>\$ -</u> | <u>\$ -</u> |

* - significant components of deferred assets and liabilities are considered to be long-term.

The Company's estimated effective income tax rate is summarized as follows:

| | <u>For the years ended March 31,</u> | |
|---|--------------------------------------|--------------|
| | <u>2011</u> | <u>2010</u> |
| U.S. Federal statutory rate | 34.0% | 34.0% |
| Average State income tax, net of federal tax effect | 4.2 | 4.0 |
| Production tax credits | (2.0) | (2.0) |
| Net effective tax rate | <u>36.2%</u> | <u>36.0%</u> |

At June 30, 2010, the Company had net income tax operating loss carry forwards of approximately \$14,985,000 (\$13,678,000 in March 31, 2010), which expire in the years 2023 through 2034. The change in the allowance account from March 31, 2010 to June 30, 2010 was \$550,000.

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 years ended March 31, 2010 and 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 States of Idaho and Oregon. These filings are subject to a three year statute of limitations. Our evaluation of income tax positions included the fiscal years ended March 31, 2009, 2008, and 2007 which could be subject to agency examinations as of June 30, 2010. 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 comply with U.S. generally accepted accounting principles.

NOTE 9 - 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. At June 30, 2010, equipment under capital lease amounted to \$53,450 (\$14,253 accumulated amortization). The schedule of minimum lease payments is as follows:

| <u>Years Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|------------------------------|------------------|-----------------|------------------|
| 2011 | \$ 12,058 | \$ 2,258 | \$ 14,316 |
| 2012 | 12,975 | 1,341 | 14,316 |
| 2013 | 11,039 | 271 | 11,310 |
| | <u>\$ 36,072</u> | <u>\$ 3,870</u> | <u>\$ 39,942</u> |

NOTE 10 – PROMISORY NOTE PAYABLE

On July 7, 2009, the Company financed the purchase 40 acres of land and a building on property adjacent to our San Emidio power plant facility with a promissory note. 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 11 – SUBSCRIPTION RECEIPTS/STOCK ISSUABLE

In the second quarter ended September 30, 2009, the Company entered into an agreement to privately place approximately 8,100,000 Subscription Receipts (“Receipt”) at \$1.35 CDN (\$1.22) per Receipt for gross proceeds of approximately \$10,935,000 CDN (\$9,882,000). Each Receipt was automatically exchanged, without additional consideration on the exchange date for one (“Unit”) of the Company. The exchange date was December 17, 2009. Each Unit consisted of one share of common stock of the Company and one half of one common stock purchase warrant (a “Warrant”). Each Warrant entitled 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 12 - 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.

On March 16, 2010, the Company completed a private placement stock offering where the Company issued 8,209,519 shares of Common Stock at a price of \$1.05 per share for gross proceeds of \$8.6 million (\$7,922,396 net proceeds). Each investor was, also, issued a common share purchase warrant (“Warrant”) exercisable for 50% of the number of shares of Common Stock purchased. Each Warrant is exercisable at \$1.25 per share for a period of five years beginning September 16, 2010.

During the quarter ended March 31, 2010, the Company issued 75,000 common shares to an employee of the Company upon exercise of stock options at a strike price of \$0.90.

During the quarter ended December 31, 2009, the Company issued 181,375 common shares to employees and consultants of the Company upon exercise of stock options at a strike prices between \$0.72 and \$0.92.

As described in Note 9, the Company issued 8,100,000 shares for \$1.35 CDN (\$1.22) on December 17, 2009 for the exchange of subscription receipts.

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.

NOTE 13 - STOCK BASED COMPENSATION

The Company has a stock incentive plan (the “Stock Incentive 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 Incentive Plan is a 15% rolling plan approved by shareholders in December 2009, whereby the Company can grant options and/or restricted shares to the extent of 15% of the current outstanding common shares. Under the plan, all forfeited and exercised options can be replaced with new offerings. As of June 30, 2010, the Company can issue stock option and/or restricted share grants totaling up to 11,797,166 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 June 30, 2010, the Company had 5,729,875 options granted and outstanding.

The following table reflects the summary of stock options outstanding at March 31, 2009 and changes during the year ended March 31, 2010, and the three months ended June 30, 2010:

| | Number of shares under options | Weighted Average Exercise Price Per Share | Weighted Average Fair Value | Aggregate Intrinsic Value |
|-------------------------------------|--------------------------------------|---|--------------------------------------|---------------------------------|
| Balance outstanding, March 31, 2009 | 4,239,250 | \$ 1.62 | \$ 1.00 | \$ 4,234,719 |
| Forfeited | (80,000) | 2.34 | 1.95 | (156,000) |
| Exercised | (304,375) | 0.90 | 0.82 | (249,588) |
| Granted | 1,875,000 | 0.95 | 0.78 | 1,466,898 |
| Balance outstanding, March 31, 2010 | 5,729,875 | 1.49 | 0.92 | 5,296,029 |
| Forfeited | - | - | - | - |
| Exercised | - | - | - | - |
| Granted | - | - | - | - |
| Balance outstanding, June 30, 2010 | 5,729,875 | \$ 1.49 | \$ 0.92 | \$ 5,296,029 |

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:

| | Three Months Ended June 30, 2010 | Year Ended March 31, 2010 |
|-------------------------|--|------------------------------|
| Dividend yield | 0 | 0 |
| Expected volatility | 89-93% | 71-93% |
| Risk free interest rate | 0.55-1.32% | 0.46-1.32% |
| Expected life (years) | 3.17 | 3.17 |

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 June 30, 2010:

| OPTIONS OUTSTANDING | | | | |
|----------------------------|------------------------------|---|--|----------------------------|
| EXERCISE PRICE | NUMBER OF OPTIONS | REMAINING CONTRACTUAL LIFE (YEARS) | NUMBER OF OPTIONS EXERCISABLE | INTRINSIC VALUE |
| \$ 1.00 CDN | 1,443,000 | 0.75 | 1,443,000 | \$ 1,465,385 |
| 1.15 CDN | 78,750 | 1.08 | 78,750 | 86,626 |
| 1.40 CDN | 157,500 | 1.58 | 157,500 | 139,271 |
| 0.92 | 1,740,625 | 3.90 | 1,305,469 | 922,617 |
| 1.78 | 95,000 | 3.23 | 95,000 | 81,172 |
| 2.22 | 1,475,000 | 2.87 | 1,475,000 | 1,798,611 |
| 2.41 | 660,000 | 2.08 | 660,000 | 466,274 |
| 1.58 | 80,000 | 3.92 | 40,000 | 15,550 |
| \$ 1.49 | 5,729,875 | 2.52 | 5,254,719 | \$ 4,975,506 |

The following table summarizes information about the stock options outstanding at March 31, 2010:

| OPTIONS OUTSTANDING | | | | |
|---------------------|-------------------|------------------------------------|-------------------------------|---------------------|
| EXERCISE PRICE | NUMBER OF OPTIONS | REMAINING CONTRACTUAL LIFE (YEARS) | NUMBER OF OPTIONS EXERCISABLE | INTRINSIC VALUE |
| \$ 1.00 CDN | 1,443,000 | 1.00 | 1,443,000 | \$ 1,465,385 |
| 1.15 CDN | 78,750 | 1.33 | 78,750 | 86,626 |
| 1.40 CDN | 157,500 | 1.83 | 157,500 | 139,271 |
| 0.92 | 1,740,625 | 4.15 | 867,125 | 612,825 |
| 1.78 | 95,000 | 3.48 | 95,000 | 81,172 |
| 2.22 | 1,475,000 | 3.12 | 1,475,000 | 1,798,611 |
| 2.41 | 660,000 | 2.33 | 660,000 | 466,274 |
| 1.58 | 80,000 | 4.17 | 40,000 | 15,550 |
| \$ 1.49 | 5,729,875 | 2.77 | 4,816,375 | \$ 4,665,714 |

A summary of the status of the Company's nonvested stock options outstanding at March 31, 2009 and changes during the fiscal year ended March 31, 2010, and the three months ended June 30, 2010 are presented as follows:

| | Number of Options | Weighted Average Grant Date Fair Value Per Share | Weighted Average Grant Date Fair Value |
|---------------------------|-------------------|--|--|
| Nonvested, March 31, 2009 | 800,000 | \$ 2.19 | \$ 1.20 |
| Granted | 1,875,000 | 0.95 | 0.70 |
| Vested | (1,681,500) | 1.52 | 0.97 |
| Forfeited | (80,000) | 2.34 | 0.90 |
| Nonvested, March 31, 2010 | 913,500 | 0.95 | 0.69 |
| Granted | - | - | - |
| Vested | (438,344) | 0.92 | 0.71 |
| Forfeited | - | - | - |
| Nonvested, June 30, 2010 | 475,156 | \$ 0.98 | \$ 0.68 |

As of June 30, 2010, there was \$244,562 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 June 30, 2010 and 2009 was \$167,014 and \$639,852; respectively.

Stock Purchase Warrants

At June 30, 2010, the outstanding broker warrants and share purchase warrants consisted of the following:

| <u>Expiration Date</u> | <u>Broker Warrants</u> | <u>Broker Warrant Exercise Price</u> | <u>Share Purchase Warrants</u> | <u>Warrant Exercise Price</u> |
|------------------------|------------------------|--------------------------------------|--------------------------------|-------------------------------|
| August 17, 2011 | 243,000 | \$ 1.22 | 4,050,000 | \$ 1.75 |
| September 16, 2015 | 246,285 | 1.25 | 4,104,757 | 1.25 |

NOTE 14 – 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 its Consolidated Balance Sheet as of June 30, 2010 at fair value on a recurring basis:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---------------------------------|---------------------|---------------------|-------------------|----------------|
| Assets: | | | | |
| Money market accounts | \$ 8,755,486 | \$ 8,755,486 | \$ - | \$ - |
| Investment in equity securities | 192,817 | - | 192,817 | - |
| | <u>\$ 8,948,303</u> | <u>\$ 8,755,486</u> | <u>\$ 192,817</u> | <u>\$ -</u> |

As allowed by current financial reporting standards, the Company has 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.

NOTE 15 - RELATED PARTY TRANSACTIONS

At June 30, 2010 and March 31, 2010, the amounts of \$5,018 and \$1,897; respectively, are payable to directors and officers of the Company for reimbursement of travel expenses. These amounts are unsecured and due on demand.

The Company’s subsidiary Raft River Energy I, LLC (“RREI”) owed the Company \$537,374 and \$335,684 at June 30, 2010 and March 31, 2010; respectively, for operating and maintenance expenses. The receivable balance is comprised of unsecured demand obligations due within twelve months. The Company received the following revenues from RREI:

| | Three Months Ended June 30, | |
|---------------------|-----------------------------|------------------|
| | 2010 | 2009 |
| Management fees | \$ 62,500 | \$ 62,500 |
| Lease and royalties | 45,012 | 29,484 |
| | <u>\$ 107,512</u> | <u>\$ 91,984</u> |

The Company’s equity investment in RREI is adjusted monthly for our share of the profit and loss based on various revenue stream and cost allocations. Our share of the costs to RREI associated with the above noted management fees and lease and royalty revenues are deemed immaterial at this time, and related U.S. Geothermal, Inc.’s revenues and RREI costs have not been eliminated in the financial statements.

The Company paid directors and officers fees in the amounts of \$22,500 and \$15,000 for the three months ended June 30, 2010 and 2009; respectively.

NOTE 16 - 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 June 30, 2010 | Canadian GAAP June 30, 2010 | U.S. GAAP March 31, 2010 | Canadian GAAP March 31, 2010 |
|--|------------------------------------|--|---|---|
| Plant, Property and Equipment | \$ 18,708,297 | \$ 19,196,109 | \$ 16,550,006 | \$ 16,990,617 |
| Intangible Assets | 17,179,171 | 17,179,171 | 16,642,515 | 16,642,515 |
| Total Assets | 64,677,753 | 61,695,485 | 65,727,861 | 66,168,472 |
| Stockholders' Equity | 61,207,673 | 65,165,565 | 62,528,591 | 62,969,202 |
| Total Liabilities and Stockholders' Equity | \$ 64,677,753 | \$ 65,165,565 | \$ 65,727,861 | \$ 66,168,472 |

| Consolidated Statements of Operations and Comprehensive Loss | U.S. GAAP Quarter Ended June 30, 2010 | Canadian GAAP Quarter Ended June 30, 2010 | U.S. GAAP Quarter Ended June 30, 2009 | Canadian GAAP Quarter Ended June 30, 2009 |
|---|--|--|--|--|
| Loss from Operations | \$ (1,491,924) | \$ (1,444,723) | \$ (1,833,017) | \$ (1,833,017) |
| Net Loss Attributable to U.S. Geothermal Inc. | \$ (1,474,560) | \$ (1,427,359) | \$ (1,802,911) | \$ (1,802,911) |

NOTE 17 - 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 in Washoe County Nevada; Neal Hot Springs, Oregon and adjoining the Raft River properties in Raft River, Idaho. The Company incurred total lease expenses for three months ended June 30, 2010 and 2009 totaling \$56,914 and \$47,625; 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 which 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 Company incurred total office lease expenses for three months ended June 30, 2010 and 2009 totaling \$17,942 and \$17,419; respectively.

Total Lease Obligations

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

| Year Ending June 30, | Amount |
|-------------------------|------------|
| 2011 | \$ 154,124 |
| 2012 | 94,579 |
| 2013 | 66,642 |
| 2014 | 64,138 |
| 2015 | 57,099 |
| Thereafter | 74,192 |

Power Purchase Agreements

The Company has signed a power purchase agreement with Idaho Power Company for sale of power generated from its joint venture 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.

401(k) Plan

The Company offers a defined contribution plan qualified under section 401(k) of the Internal Revenue Code to all its eligible employees. All employees are eligible at the beginning of the quarter after completing 3 months of service. The plan requires the Company to match 25% of the employee's contribution up to 6%. Employees may contribute up to the maximum allowed by the Internal Revenue Code.

Mineral Rights Option Agreement

On May 24, 2010, USG Oregon LLC (a wholly owned subsidiary of the Company) entered into an option agreement that allows for exclusive purchase of all mineral rights associated with 2,110 acres of land located in Malheur County, Oregon. Per the terms of the agreement, the Company transferred \$200,000 to the seller. To exercise the option agreement, the Company must pay an additional \$200,000 prior to November 25, 2012. If the second payment is not made, the Company loses all rights associated with the agreement.

NOTE 18 – 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 19 – SUBSEQUENT EVENTS

The Company has evaluated events and transactions that have occurred after the balance sheet date through August 8, 2010, which is considered to be the issuance date. The following event was identified for disclosure:

San Emidio, Nevada Power Plant Construction Financing

On July 14, 2010, the Company entered into a memorandum of understanding regarding a construction loan agreement with an engineering, procurement and construction company (“Contractor”) to construct an 8.6 net megawatt power plant at San Emidio, Nevada. The agreement calls for the Contractor to provide a non-recourse project loan for \$30 million. The construction loan is expected to be repaid with long term financing from available sources such as the Section 1705 loan guarantee program from the U.S. Department of Energy. Final documents are currently being compiled.

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

INFORMATION REGARDING FORWARD LOOKING STATEMENTS

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve a number of risks and uncertainties. We caution readers that any forward-looking statement is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement. These statements are based on current expectations of future events. You can find many of these statements by looking for words like “believes,” “expects,” “anticipates,” “intend,” “estimates,” “may,” “should,” “will,” “could,” “plan,” “predict,” “potential,” or similar expressions in this document or in documents incorporated by reference in this document. Examples of these forward-looking statements include, but are not limited to:

- our business and growth strategies;
- our future results of operations;
- anticipated trends in our business;
- the capacity and utilization of our geothermal resources;
- our ability to successfully and economically explore for and develop geothermal resources;
- our exploration and development prospects, projects and programs, including construction of new projects and expansion of existing projects;
- availability and costs of drilling rigs and field services;
- our liquidity and ability to finance our exploration and development activities;
- our working capital requirements and availability;
- our illustrative plant economics;
- market conditions in the geothermal energy industry; and
- the impact of environmental and other governmental regulation.

These forward-looking statements are based on the current beliefs and expectations of our management and are subject to significant risks and uncertainties. If underlying assumptions prove inaccurate or unknown risks or uncertainties materialize, actual results may differ materially from current expectations and projections. The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements:

- the failure to obtain sufficient capital resources to fund our operations;
- unsuccessful construction and expansion activities, including delays or cancellations;
- incorrect estimates of required capital expenditures;
- increases in the cost of drilling and completion, or other costs of production and operations;
- the enforceability of the power purchase agreements for our projects;
- impact of environmental and other governmental regulation, including delays in obtaining permits;
- hazardous and risky operations relating to the development of geothermal energy;
- our ability to successfully identify and integrate acquisitions;

- our dependence on key personnel;
- the potential for claims arising from geothermal plant operations;
- general competitive conditions within the geothermal energy industry; and
- financial market conditions.

All subsequent written or oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events, except as may be required under applicable U.S. securities law. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

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 unaudited consolidated financial statements for the period ended June 30, 2010 and notes thereto included in this report.

U.S. Geothermal Inc. ("the Company") is a Delaware corporation. The Company's common stock trades on the Toronto Stock Exchange under the symbol "GTH" and on the NYSE Amex LLC under the trade symbol "HTM."

For the quarter year ended June 30, 2010, the Company was focused on:

- 1) Completing the temperature gradient drilling program at the Neal Hot Spring project;
- 2) planning drilling and field development activities at Neal Hot Springs;
- 3) planning and permitting for drilling at the Gerlach Joint Venture;
- 4) negotiating a fully financed EPC and a PPA for the San Emidio Project;
- 5) optimizing the operation of the San Emidio power plant in Nevada, and planning for start of construction on the Phase I repower of the existing well field;
- 6) optimizing the operation of the well field at the Raft River project in Idaho ("Raft River Unit I"; and
- 7) the evaluation of potential new geothermal project acquisitions.

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.

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 \$16.5 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 | Estimated Capital Required (\$million) | Anticipated Power Purchaser |
|---------------------------------|----------|-----------|-------------------------|-------------------------------------|--|---------------------------------|
| San Emidio Phase I (Repower) | Nevada | 100% | 5.4 | 1 st Quarter 2012 | \$30 | NV Energy |
| San Emidio Phase II (Expansion) | Nevada | 100% | 26 | 3 rd Quarter 2012 | \$127 | TBD |
| Neal Hot Springs I | Oregon | 100% | 22 | 2 nd Quarter 2012 | \$119 | Idaho Power |
| Neal Hot Springs II | Oregon | 100% | 28 | 3 rd Quarter 2013 | \$154 | TBD |
| Raft River I (Repower) | Idaho | JV | 3 | 3 rd Quarter 2010 | \$7 | Idaho Power |
| Raft River (Unit II) | Idaho | 100% | 26 | 4 th Quarter 2013 | \$134 | Eugene Water and Electric Board |
| Raft River (Unit III) | Idaho | 100% | 32 | 2 nd Quarter 2015 | \$166 | TBD |

Additional Properties

| Project | Location | Ownership | Target Development (MW) |
|---------------|-----------------|-----------|-------------------------|
| Gerlach | Nevada | 60% | To be determined |
| Granite Creek | Nevada | 100% | To be determined |
| El Ceibillo | Guatemala, S.A. | 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⁾ | 127.0 ⁽¹⁾ | 4,500-6,000 | Binary |
| San Emidio | 35.8 | 289-305 ⁽²⁾ | 68.0 ⁽⁴⁾ | 1,500-2,000 | Binary |
| Neal Hot Springs | 9.6 | 311-347 ⁽³⁾ | 50.0 ⁽⁵⁾ | 2,500-3,000 | Binary |
| Gerlach | 5.6 | 338-352 ⁽³⁾ | 18.0 | TBD | Binary |
| Granite Creek | 8.5 | TBD | 25.0 ⁽⁶⁾ | TBD | Binary |
| El Ciebilllo | 38.6 | 410-446 ⁽³⁾ | TBD | TBD | Steam |

- (1) Geothermex Inc.'s assessment of 94 MW was based on 6.0 square miles. The Company acquired additional acreage. The resource estimate of 127.0 MW is an internal estimate.
- (2) Actual production temperatures for existing wells.
- (3) Probable reservoir temperature as measured with a geothermometer.
- (4) Black Mountain Technology Resource estimate with respect to 49.0 MW, remainder is an internal estimate.
- (5) Geothermal Science, Inc. resource estimate with respect to 22.0 MW, remainder is an internal estimate.
- (6) Internal estimate.

Raft River Update

Raft River Energy Unit I is located in Idaho and has a 13 megawatt geothermal power plant in operation.

Raft River Unit I operated through the first fiscal quarter at 94.5% availability which includes 4.2 days for the annual scheduled outage. Raft River generated an average of 8.7 net megawatts during the three month period ended June 30, 2010. The reduction in output for the period compared to planned generation was due to the loss of temperature from production well RRG-7 and the shutdown of production well RRG-2.

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 has been planned for a cost of \$813,300 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-2 was shut down on June 10, 2010 due to a reduction in flow and increased motor load which indicates an impending pump failure. A repair program, which includes a well stimulation procedure, has been planned for a cost of \$512,750.

Until the repairs are completed, the plant output will continue at about 7.8 megawatts. Plans for repair of both RRG-7 and RRG-2 are under discussion with Raft River I Holdings, the joint venture partner for Raft River Unit I.

Raft River Operating Agreement

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. If insufficient cash is generated to satisfy all joint venture obligations, the management fees will be deferred. See Note 5 “Investment in Subsidiaries” in the financial statements for detail of cash payments from RREI.

The Company’s interests in the RREI as defined in the partnership agreements are summarized as follows:

| | | Years 1 - 4 | Years 5 - 10 | Years 11 - 20 | Years 20 - 25 |
|--------------|--|-------------------------|--------------|---------------|---------------|
| Cash Flow | RECs | 70% (1) | | | |
| | GAAP Income | 1% (2) | | 49% | 80% |
| | Lease Payments, O&M Services & Royalties | 100% | | | |
| | Distributions | Guaranteed min. payment | 1% (3) | 49% | 80% |
| Tax Benefits | | 1% (2) | | 49% | 80% |

- (1) U.S. Geothermal allocates 70% of income and receives 70% of available cash from RECs sold to third-parties. After year 10, REC income is shared with Idaho Power Co. For additional details, see U.S. Geothermal’s Form 10-Q filed on August 10, 2009 (Exhibit 10.36).
- (2) Flip to next tier occurs after the later of 10 years or Raft River I Holdings’ target IRR is achieved.
- (3) Flip to next tier occurs after Raft River I Holdings’ target IRR is achieved.

Neal Hot Springs Update

Neal Hot Springs is a promising geothermal resource located in Eastern Oregon.

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. Although we have not yet received approval, the DOE guaranteed loan is expected to provide up to 75% of the \$120 million estimated capital cost of Stage I up to a maximum loan amount of \$102.2 million. The capital cost has increased to \$120 million from prior estimates of \$106 million due to costs of labor, updated vendor pricing and construction materials, project loan costs and contingencies. Detailed design of a binary cycle power plant utilizing significantly improved technology is currently in progress with construction expected to begin in mid 2010. The new plant, designed to deliver approximately 22 MW of power net to the grid is scheduled to begin commercial operations in early 2012. The DOE guaranteed loan is anticipated to be a combined construction and term loan and provide the project with a low cost annual interest rate. We expect that we will be required to drill up to 8 additional wells as a condition precedent to drawing on the DOE guaranteed loan, if it is approved.

The new plant, designed to deliver approximately 22 MWs of power net to the grid is scheduled to begin commercial operations in early 2012. The DOE loan is anticipated to be a combined construction and term loan and provide the project with a low cost annual interest rate. We expect that we will be required to drill up to 8 wells as a condition precedent to drawing on the DOE loan, if it is approved.

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 11, 2009 and drilling of the second production well, NHS-5, began on September 18, 2009. October 15, 2009, 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 has been 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 continued a temperature gradient ("TG") drilling program utilizing a small diameter drill hole. Eleven TG holes ranging in depth from 500 to 1,060 feet have been completed, and are providing valuable temperature gradient data for the overall area that hosts the Neal Hot Springs reservoir. Currently, several TG holes are being deepened and another three to five new TG holes will be drilled with a number of the holes planned to reach a depth of 2,000 feet as the size of the geothermal anomaly is defined.

The Company received the Conditional Use Permit from the Malheur County Planning Commission for construction of its proposed 22 net MW 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. All of the Federal Energy Regulatory Commission ("FERC") mandated transmission studies have been completed by 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, the line route is surveyed and the final engineering design has reached approximately 99% completion.

The PPA for the project was signed on December 11, 2009 with the Idaho Power Company. The PPA has a 25 year term with a starting price of \$96 per MW-hour and escalates at a variable percentage annually. Idaho Power Company submitted the PPA to the Idaho Public Utilities Commission on December 28, 2009. IPUC authorized a Modified Procedure for review of the PPA on March 17, 2010 which calls for a 45 day public comment period and 10 day reply period. The Idaho Public Utilities Commission approved the PPA with no changes to the terms and conditions on May 20, 2010.

Two mineral ownership interests in the Neal Hot Spring project were acquired during the quarter. A 25 % mineral interest for 600 acres of property was acquired from a private estate. An option to purchase a separate 25% mineral interest in 2,110 acres of the project was executed with GCO Minerals Company, a subsidiary of International Paper.

San Emidio Update

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 MW 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. A cooling tower was added in 1998 to improve summer peak power generation. During the first fiscal quarter ended June 30, 2010, the San Emidio plant operated at 99.4% availability and generated an average of 2.5 net megawatts during the period.

Two System Feasibility Studies were initiated in July 2008 with Sierra Pacific Power Corporation to begin the FERC mandated transmission study process for the development of the San Emidio resource. The studies are examining two levels of power generation, 15 MWs and 45 MWs, several transmission routes and the costs associated with each level of generation. The System Impact Study for the 15 MW Phase I repower, 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 MWs. The third phase study, the Interconnection Facilities Study for the 15 MW option, was completed in October. A draft interconnection agreement is expected from Sierra Pacific Power before the end of the third calendar quarter of 2010.

Subsequent to the end of the year, the System Impact Study for the 45 MW option was received in April. The third phase study for the 45 MW option, the Interconnection Facilities Study, will be contracted during the second calendar quarter and is expected to be completed 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. Initial geologic mapping under the program has been initiated, permitting has advanced, and the seismic team has been contracted.

On July 14, 2010, the Company entered into a memorandum of understanding regarding a construction loan agreement with an engineering, procurement and the construction company (“Contractor”) to construct an 8.6 net megawatt power plant at San Emidio, Nevada. The agreement calls for the Contractor to provide a non-recourse project loan for \$30 million. The construction loan is expected to be repaid with long term

financing from available sources such as the Section 1705 loan guarantee program from the U.S. Department of Energy. Final documents are currently being compiled.

The San Emidio 35 MW development is planned for execution in two phases. Phase I will be a repower and Phase II will be an expansion. Phase I will utilize the existing production and injection wells with a new, more efficient power plant. As shown in the table above, the repower is anticipated to cost approximately \$30 million and the expansion is anticipated to cost \$127 million, 75% of which we believe may be funded by a Department of Energy loan, with the remainder funded through equity financing. The Phase I repower is anticipated to begin construction in the third calendar quarter of 2010 with commercial operations commencing in the fourth calendar quarter of 2011 or first calendar quarter of 2012. The Phase II expansion is anticipated to begin construction in the second calendar quarter of 2010 with commercial operations commencing in the third calendar quarter of 2012. The Company expects to be granted about \$40 million in ITC cash grant in connection with the \$157 million 35 MW development. The 35 MW development will require an amendment to the existing Sierra Pacific Power Purchase Agreement.

Guatemala

A geothermal energy rights concession located 14 kilometers southwest of Guatemala City was awarded to U.S. Geothermal Guatemala S.A., a wholly owned subsidiary of the Company in April. The concession contains 24,710 acres (100 square kilometers) in the center of the Aqua and Pacaya twin volcano complex.

The concession contains the El Ceibillo geothermal project which has nine existing geothermal wells that were drilled in the 1990s and have depths ranging from 560 to 2000 feet (170 to 610 meters). Six of the wells have measured reservoir temperatures in the range of 365°F to 400°F and have high conductive gradients that indicate rapidly increasing temperature with depth. Fluid samples and mineralization from the wells indicate the existence of a high permeability reservoir below the existing well field.

An office and staff have been established and planning is underway to advance the project with a detailed geophysical program, geologic mapping, sampling of hot springs, and to re-drill one or two of the existing wells to test for deep, high temperature permeability.

Gerlach Update

Permitting has been completed and bonding submitted for a drill site on the Gerlach joint venture property located adjacent to the town of Gerlach in Washoe County, Nevada. A 2,000 foot deep temperature gradient well is planned that will test an identified fault zone.

Granite Creek

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 Geysers. A first stage gravity geophysical program was completed in the third quarter of 2008 and will be used to evaluate the resource potential, and help determine where to drill temperature-gradient exploration wells.

Operating Results

For the three months ended June 30, 2010, the Company reported a net loss of \$1.4 million dollars (\$0.02 loss per share) which represented an 18.2% decrease over the same period in 2009. Notable favorable variances were noted for San Emidio operations and stock based compensation. Unfavorable variances were noted in corporate administration; professional and management fees; salaries and wages; and travel and promotion costs.

San Emidio, Nevada Plant Energy Sales and Plant Operating Expenses

For the three months ended June 30, 2010, the San Emidio plant reported a net loss of \$72,625 (\$589,082 net loss in 2009). This was primarily due to higher energy revenues and lower repair and maintenance costs. Energy production revenues increased \$327,894 (134.5%) in the quarter ended June 30, 2010 from the same period in 2009. This favorable variance is due to both higher production levels, as well as higher rates. The higher kilowatt rate average earned in the three months ended June 30, 2010 was due to higher production levels during the “on peak” rate periods in June 2010. Total production levels in the current quarter were 5,448,622 kilowatt hours which was a 2,597,708 (91.1%) kilowatt hours higher than the quarter ended June 30, 2009. Production levels were higher in the current quarter primarily due to efficiencies gained by repair and improvements made since the acquisition. Production levels were lower in the quarter ended June 30, 2009, primarily due to down time for repairs. In 2009, repair costs of over \$112,000 were incurred to rebuild and reinstall a pump. Costs that amounted to over \$59,000 were incurred to retube an OEC condenser and to install a new gear box.

Summarized statements of operations for the San Emidio, Nevada plant are as follows:

| | Three Months Ended June 30, | | | |
|-------------------------------|-----------------------------|--------|-----------|---------|
| | 2010 | | 2009 | |
| | \$ | % | \$ | % |
| Operating revenues: | | | | |
| Energy sales | 571,646 | 100.0 | 243,752 | 100.0 |
| Operating expenses: | | | | |
| General and administrative | 60,486 | 10.6 | 72,728 | 29.8 |
| Salaries and related costs | 198,761 | 34.8 | 212,385 | 87.1 |
| Operations: | | | | |
| Repairs and maintenance | 35,892 | 6.3 | 259,158 | 106.3 |
| Other | 92,690 | 16.2 | 63,833 | 26.2 |
| Rent and lease | 9,384 | 1.6 | 10,695 | 4.4 |
| Purchased utilities | 12,971 | 2.3 | 13,063 | 5.4 |
| Depreciation and amortization | 238,087 | 41.6 | 200,972 | 82.5 |
| | 648,271 | 113.4 | 832,834 | 341.7 |
| Net Loss | (76,625) | (13.4) | (589,082) | (241.7) |

% - represents the percentage of total operating revenues.

Key quarterly production data is summarized as follows:

| Quarter Ended: | Kilowatt Hours x 1,000 | Energy Sales (\$) | Ave. Rate per Kilowatt- Hour (\$) | Net Loss (\$) | Depreciation & Amortization (\$) |
|--------------------|------------------------------|-------------------------|--|------------------|---|
| September 30, 2008 | 5,650 | 529,383 | 0.0937 | (185,838) | 195,046 |
| December 31, 2008 | 4,097 | 317,256 | 0.0774 | (146,859) | 196,941 |
| March 31, 2009 | 3,808 | 296,577 | 0.0779 | (267,114) | 201,711 |
| June 30, 2009 | 2,851 | 243,752 | 0.0855 | (589,082) | 200,972 |
| September 30, 2009 | 5,224 | 540,841 | 0.1035 | (46,118) | 207,066 |
| December 31, 2009 | 4,689 | 463,286 | 0.0988 | (348,073) | 207,136 |
| March 31, 2010 | 5,018 | 496,104 | 0.0989 | (163,597) | 207,191 |
| June 30, 2010 | 5,449 | 571,646 | 0.1049 | (76,625) | 238,087 |

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

The Company uses the hypothetical liquidation at book value method (“HLBV”) for allocating of Raft River Energy I, LLC’s (“RREI”) profits and losses. This method utilizes the specific terms outlined in the RREI’s operating agreement or other authoritative documents. These terms include cash disbursement terms, associated financial instruments, debt arrangements, and rights to specific revenue streams. The primary element of the profit and loss allocation from inception has been the amount of renewable energy credits earned.

The Company’s gain from RREI increased \$13,200 (22.0%) in the quarter ended June 30, 2010 from the same period in 2009 which correlates to the \$1,008,170 (63.3%) reduction in net loss from 2009 to 2010. The net loss of \$1,592,374 for the quarter ended June 30, 2009 was a direct result of both planned and unplanned maintenance and repairs that lead to lower revenues and increased repair costs. The entire plant was shut down for planned maintenance from April 1, 2009 to April 13, 2009. Repair costs on a production pipe column exceeded \$500,000. Also, a lap joint failed in production well RRG-7 in January 2009 causing a loss of temperature. The lap joint repairs were not successful, and the well continues to under perform. Prior to the lap joint leak, the plant produced an average of approximately 7,600,000 kilowatt hours per month.

Plant production in the quarter ended June 30, 2010 was 5,866,271, which is approximately 22.7% lower than the average before the lap joint failure. In addition to the lap joint failure, the plant was shut down in April for routine maintenance and one production well was shut down on June 10, 2010 due to a impending pump failure. Remediation plans have been formulated to address both issues.

The Summarized statements of operations for RREI are as follows:

| | Three Months Ended June 30, | | | | | |
|--|-----------------------------|---------------|--------------------|----------------|------------------|-------------|
| | 2010 | | 2009 | | Variance | |
| | \$ | %* | \$ | %* | \$ | %** |
| Operating revenues: | | | | | | |
| Energy sales | 806,439 | 87.6 | 738,303 | 87.1 | 68,136 | 9.2 |
| Energy credit sales | 114,394 | 12.4 | 109,873 | 12.9 | 4,521 | 0.4 |
| | <u>920,833</u> | <u>100.0</u> | <u>848,176</u> | <u>100.0</u> | <u>72,657</u> | <u>0.9</u> |
| Operating expenses: | | | | | | |
| Operations | 992,877 | 107.8 | 1,935,041 | 228.0 | 942,164 | 48.7 |
| Depreciation and amortization | 512,211 | 55.6 | 510,659 | 60.2 | (1,552) | (0.3) |
| | <u>1,505,088</u> | <u>163.4</u> | <u>2,445,700</u> | <u>288.2</u> | <u>940,612</u> | <u>38.5</u> |
| Operating Loss | (584,255) | (63.4) | (1,597,524) | (188.2) | 1,013,269 | 63.4 |
| Other income | 51 | 0.0 | 5,150 | 0.5 | (5,099) | (99.0) |
| Net Loss | <u>(584,204)</u> | <u>(63.4)</u> | <u>(1,592,374)</u> | <u>(187.7)</u> | <u>1,008,170</u> | <u>63.3</u> |
| U.S. Geothermal Inc.’s Allocation of Net Loss | <u>73,089</u> | | <u>59,889</u> | | <u>13,200</u> | <u>22.0</u> |

*% - represents the percentage of total operating revenues.

**% - represents the percentage of change from 2009 to 2010.

Key quarterly production data is summarized as follows:

| Quarter Ended: | Kilo- watt Hours x 1,000 | Energy Sales (\$) | Renewable Energy Credit Sales (\$) | Net Income (Loss) | |
|---------------------|-----------------------------------|-------------------------|---|-------------------|--------------------------|
| | | | | Totals (\$) | USG's Portion (\$) |
| June 27, 2008 | 22,125 | 1,127,069 | 142,979 | (119,141) | 97,463 |
| September. 26, 2008 | 21,153 | 1,408,357 | 154,018 | (319,558) | 103,077 |
| December 26, 2008 | 24,342 | 1,625,010 | 168,350 | 426,339 | 120,425 |
| March 27, 2009 | 22,927 | 1,355,582 | 158,606 | (14,170) | 109,296 |
| June 30, 2009 | 15,479 | 848,176 | 109,873 | (1,592,374) | 58,831 |
| September. 30, 2009 | 17,940 | 1,253,724 | 125,788 | (450,307) | 82,312 |
| December 31, 2009 | 19,602 | 1,352,016 | 133,644 | 76,634 | 92,981 |
| March 31, 2010 | 20,252 | 1,158,710 | 131,621 | (102,333) | 89,805 |
| June 30, 2010 | 17,599 | 806,439 | 114,394 | (584,204) | 73,089 |

Corporate Administration

For the three months ended June 30, 2010, the Company reported \$222,300 in corporate administrative costs, which was an increase of \$91,599 (70.1%) from the same period in 2009. The primary components of the increase were franchise taxes, listing/filing fees, and interest expense. Listing and filing fees increased \$49,253 from the same quarter in 2009 due to the additional issued and outstanding common shares.

Interest expense increased \$6,634 from the same quarter in 2009, incurred from the issuance of a promissory note with an outstanding balance of \$230,000 issued for the purpose of property in San Emidio, Nevada.

Professional and Management Fees

For the three months ended June 30, 2010, the Company incurred professional and management fees of \$555,548, which is an increase of \$291,407 (110.3%) from the same period in 2009. The increase is primarily due to the legal costs that amounted to over \$221,000 for services to investigate the implications of potential strategic alternatives.

Salaries and Wages

For the three months ended June 30, 2010, the Company reported \$470,054 in salary and salary related costs, which was an increase of \$213,649 (83.3%) from the same period in 2009. The variance is due to the addition of two management/development employees, employee bonuses and general wage increases which amounted to approximately \$78,000, \$117,500 and \$53,500; respectively. The increases were partially offset by higher levels of wages and benefits (approximately \$113,600 in 2010, \$63,900 in 2009, for a net increase of \$49,700) that were capitalized related to the Neal Hot Springs, Oregon development activities.

Stock Based Compensation

For the three months ended June 30, 2010, the Company reported \$167,054 in stock based compensation, which was a decrease of \$472,838 (73.9%) from the same period in 2009. The last employee stock options were granted on May 26, 2009, therefore no new stock option based compensation costs have been incurred and lower quantities of options vested in the current quarter.

Travel and Promotional Costs

For the three months ended June 30, 2010, the Company reported \$114,031 in travel and promotional costs, which was an increase of \$61,459 (116.9%) from the same period in 2009. Corporate advertising and promotion costs increased over \$34,000 in the quarter ended June 30, 2010 from the same period in

2009. Most of these costs related to payments to a non-profit organization that supports global environmental issues. Additional travel and meals costs (increase of over \$27,000 from 2009) were incurred due to more management promotional activities.

Off Balance Sheet Arrangements

As of June 30, 2010, the Company does not have any off balance sheet arrangements.

Liquidity and Capital Resources

We believe our cash and liquid investments at June 30, 2010 are adequate to fund our general operating activities through March 31, 2011 including limited drilling at Neal Hot Springs and general development support activities at San Emidio. 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. In addition to government loans and grants discussed below, 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.

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 2010 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 the near future. In these difficult financial 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 look for additional cost savings.

On July 14, 2010, the Company entered into a memorandum of understanding regarding a construction loan agreement with an engineering, procurement and the construction company ("Contractor") to construct an 8.6 net megawatt power plant at San Emidio, Nevada. The agreement calls for the Contractor to provide a non-recourse project loan for \$30 million. The construction loan is expected to be repaid with long term financing from available sources such as the Section 1705 loan guarantee program from the U.S. Department of Energy. Final contract documents are currently being compiled.

As conditionally approved in May 2010, a DOE guaranteed loan is expected to provide 75% of the estimated capital cost of Stage I at Neal Hot Springs up to a maximum loan amount of \$102.2 million. The capital cost has increased to \$120 million from prior estimates of \$106 million due to increases in the costs of labor, updated vendor pricing on construction materials, project loan costs and contingencies. Detailed design of a binary cycle power plant utilizing significantly improved technology is currently in progress with construction expected to begin in mid to late 2010. The new plant, designed to deliver approximately 22 MW of power net to the grid is scheduled to begin commercial operations in early 2012. The DOE guaranteed loan is anticipated to be a combined construction and term loan and provide the project with a low cost annual interest rate. We expect that we will be required to drill up to 8 additional wells as a condition precedent to drawing on the DOE guaranteed loan, if it is approved.

On March 16, 2010, the Company closed a private placement of securities issued pursuant to a securities purchase agreement (the "Purchase Agreement") entered into with several institutional investors, pursuant to which the Company issued 8,209,519 shares of common stock at a price of \$1.05 per share for gross proceeds of approximately \$8.6 million (the "Private Placement"). Pursuant to the terms of the Private Placement, each investor was also issued a common share purchase warrant (a "Warrant") exercisable for 50% of the number of shares of common stock purchased by the investor. The Company paid commissions to agents in connection with the Private Placement in the amount of approximately \$516,000 and issued warrants to purchase up to 246,285 shares of common stock. The net proceeds of the offering (approximately \$8.0 million) will be used by the Company to further develop its Neal Hot Springs geothermal project and for general working capital purposes.

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.

On August 17, 2009, the Company completed a private placement of 8,100,000 Subscription Receipts ("Receipt") at \$1.35 CDN per Receipt for aggregate gross proceeds of CDN \$10,935,000. Each Receipt was exchanged on December 17, 2009 for one share of common stock of the Company and one half of one common stock purchase warrant (a "Warrant"). Each Warrant entitles the holder thereof to acquire one additional share of common stock of the Company for \$1.75 for 24 months from closing. The placement agents have been paid an aggregate cash fee of CDN \$656,100, representing 6% of the aggregate gross proceeds of the offering, and have been issued compensation options, exercisable for 24 months, entitling the placement agents to purchase up to 243,000 shares of common stock of the Company at \$1.22. The proceeds provided funds to drill 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 capacity. Completion of drilling is a condition precedent to the funding from the DOE loan program, if our application is approved.

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, 2010, as amended, for a description of our critical accounting policies.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

Interest Risk on Investments

At June 30, 2010, the Company held investments of \$8,755,486 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 a 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 quarterly period ended June 30, 2010, 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) as of the end of 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 at the end of this period covered by this report 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 June 30, 2010 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 annual report on Form 10-K, Part I, Item 1A for the year ended March 31, 2010, except as noted below:

Department of Energy Loan

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.

Subsidiary's Well Repairs

The Company has ongoing discussions with Raft River I Holdings, the joint venture partner for Raft River Unit 1, regarding the funding for the repairs of both wells RRG-2 and RRG-7. Although we anticipate joint venture funding of the repairs, failure to reach a favorable resolution regarding the funding of the repairs within the next few quarters would result in lower than anticipated energy production and their associated tax benefits and cash flows, and a re-evaluation of the carrying value of our investment in Raft River Energy I LLC would be required.

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

None.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – [Removed and Reserved]

Item 5 - Other Information

None.

Item 6 - Exhibits

See the exhibit index to this quarterly report on 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: August 9, 2010

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

Date: August 9, 2010

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

EXHIBIT LIST

| Exhibit Number | Description |
|-----------------------|--|
| 10.1 | Employment Agreement dated as of May 18, 2010 with Daniel J. Kunz |
| 10.2 | Employment Agreement dated as of April 1, 2010 with Kerry D. Hawley (Incorporated by reference to exhibit 99.2 to the registrant's Form 8-K as filed on May 28, 2010) |
| 10.3 | Employment Agreement dated as of April 1, 2010 with Douglas J. Glaspey (Incorporated by reference to exhibit 99.1 to the registrant's Form 8-K as filed on May 28, 2010) |
| 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: August 9, 2010

/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: August 9, 2010

/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 June 30, 2010, 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: August 9, 2010

/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 June 30, 2010, 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: August 9, 2010

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