

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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)

**DECEMBER 31, 2004**

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

**INTERIM CONSOLIDATED BALANCE SHEET**  
(Unaudited – Prepared by Management)  
(Stated in U.S. Dollars)

	<b>December 31</b>	<b>March 31</b>
	<b>2004</b>	<b>2004</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,552,382	\$ 870,513
Refundable tax credit	4,293	7,900
Grants receivable	52,706	-
Prepaid expenses	4,698	-
	<b>2,614,079</b>	<b>878,413</b>
<b>Raft River Geothermal Property (Note 4)</b>	<b>680,289</b>	<b>527,440</b>
<b>Office Equipment</b>	<b>2,977</b>	<b>3,418</b>
	<b>\$ 3,297,345</b>	<b>\$ 1,409,271</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 68,374	\$ 185,465
<b>SHAREHOLDERS' EQUITY</b>		
<b>Common Shares</b>		
Authorized:		
100,000,000 common shares with a \$0.001 par value		
Issued:		
17,201,429 shares at December 31, 2004	\$ 17,201	\$ 12,923
<b>Additional Paid-In Capital</b>	<b>4,832,906</b>	<b>2,148,787</b>
<b>Deficit</b>	<b>(1,621,136)</b>	<b>(937,904)</b>
	<b>3,228,971</b>	<b>1,223,806</b>
	<b>\$ 3,297,345</b>	<b>\$ 1,409,271</b>
Approved on behalf of the Board:	“Doug Glaspey”	“Paul Larkin”
	Director	Director

**U.S. GEOTHERMAL INC.**  
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**INTERIM CONSOLIDATED STATEMENT OF LOSS AND DEFICIT**

(Unaudited – Prepared by Management)

(Stated in U.S. Dollars)

	Three months ended Dec. 31 2004	Three months ended Dec. 31 2003	Nine months ended Dec. 31 2004	Nine months ended Dec. 31 2003
<b>Expenses</b>				
Consulting fees	\$ 43,572	\$ -	\$ 152,275	\$ -
Corporate administration and development	3,710	4,520	50,943	22,753
Professional fees	100,724	25,563	258,837	33,533
Management fees	-	27,000	55,041	81,000
Geothermal Review	-		15,000	-
Travel and promotion	16,719	2,406	62,444	5,685
Salaries and wages	64,580		64,580	
Insurance	49,886		49,886	
Merger related costs	-	75,292	-	75,292
Stock based compensation	69,081	-	127,083	-
<b>Loss Before The Following</b>	<b>(348,272)</b>	<b>(134,781)</b>	<b>(836,089)</b>	<b>(218,263)</b>
<b>Gain/(loss) On Foreign Exchange</b>	<b>151,470</b>	<b>-</b>	<b>140,150</b>	<b>-</b>
<b>Interest Income</b>	<b>9,893</b>	<b>-</b>	<b>12,707</b>	<b>-</b>
<b>Net Loss For The Period</b>	<b>(186,909)</b>	<b>(134,781)</b>	<b>(683,232)</b>	<b>(218,263)</b>
<b>Deficit, Beginning Of Period</b>	<b>(1,434,227)</b>	<b>(231,092)</b>	<b>(937,904)</b>	<b>(147,610)</b>
<b>Net Liabilities Assumed (Note 3)</b>	<b>-</b>	<b>(408,166)</b>	<b>-</b>	<b>(408,166)</b>
<b>Deficit, End Of Period</b>	<b>\$ (1,621,136)</b>	<b>\$ (774,039)</b>	<b>\$ (1,621,136)</b>	<b>\$ (774,039)</b>
<b>Basic And Diluted Loss Per Share</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>	<b>\$ (0.04)</b>	<b>\$ (0.02)</b>
<b>Weighted Average Number Of Shares Outstanding</b>	<b>17,146,894</b>	<b>3,613,166</b>	<b>17,146,894</b>	<b>9,551,458</b>

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**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

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

	Three months ended Dec. 31 2004	Three months ended Dec. 31 2003	Nine months ended Dec. 31 2004	Nine months ended Dec. 31 2003
<b>Operating Activities</b>				
Net loss for the year	\$ (186,909)	\$ (134,781)	\$ (683,232)	\$ (218,263)
Add Non-cash items:				
Change in non-cash working capital items:				
Prepaid expenses	16,523	-	(4,698)	-
Accounts payable and accrued liabilities	(181,975)	(13,485)	(117,091)	27,694
Depreciation	83	108	441	323
Stock based compensation	69,081	-	127,083	-
Grants receivable	145,443	-	(52,706)	-
Refundable tax credit	4,563	-	3,607	-
	<u>53,718</u>	<u>(13,377)</u>	<u>(43,364)</u>	<u>28,017</u>
<b>Investing Activities</b>				
Raft River Geothermal Property	<u>(49,436)</u>	13,690	<u>(152,849)</u>	(89,263)
<b>Financing Activities</b>				
Loan Payable	-	-	-	-
Advances from (to) associated companies	-	(40,000)	-	86,500
Issuance of shares, private placement	278	1,459,475	4,278	1,459,475
Additional Paid-In Capital, Stock based compensation	(69,081)	-	(127,083)	-
Additional Paid-In Capital, private placement	130,379	-	2,616,408	-
	<u>61,576</u>	<u>1,419,475</u>	<u>2,493,603</u>	<u>1,545,975</u>
<b>Increase (Decrease) In Cash And Cash Equivalents</b>	<b>\$ (121,051)</b>	<b>\$ 1,285,007</b>	<b>\$ 1,614,158</b>	<b>\$ 1,266,466</b>
<b>Cash And Cash Equivalents, Beginning Of Period</b>	<b>2,605,722</b>	<b>11,188</b>	<b>870,513</b>	<b>29,729</b>
<b>Cash Acquired On Business Combination</b>	<b>-</b>	<b>5,798</b>	<b>-</b>	<b>5,798</b>
<b>Cash And Cash Equivalents, End Of Period</b>	<b>\$ 2,484,671</b>	<b>\$ 1,301,993</b>	<b>\$ 2,484,671</b>	<b>\$ 1,301,993</b>

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2004**  
(Unaudited – Prepared by Management)  
(Stated in U.S. Dollars)

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

U.S. Cobalt Inc. (“GTH”) completed a reverse take-over on December 19, 2003 (Note 3). The effect of this reverse take-over was that the former shareholders of U.S. Geothermal Inc. (“GEO-Idaho”) a company incorporated on February 20, 2002 in the state of Idaho, acquired control of GTH. In connection with the transaction U.S. Cobalt Inc. changed its name to U.S. Geothermal Inc. and consolidated its common shares on a one new to five old basis. All references to common shares in these financial statements have been restated to reflect the roll-back.

GEO-Idaho is the operating subsidiary, which has entered into an agreement with Vulcan Power Company (“Vulcan”) of Bend, Oregon, U.S.A., pursuant to which the Company has agreed to acquire a 100% interest in the Raft River Geothermal Property located in Cassia County, Idaho, U.S.A. (Note 4).

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the realization of assets and discharge of liabilities in the normal course of business. The Company is in the process of exploring its geothermal properties and has not yet determined whether these properties contain economically recoverable geothermal reserves. The recoverability of the amounts shown for geothermal properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production. In the event the Company is unable to obtain additional financing, there is no assurance that the Company will be able to continue as a going concern. These financial statements do not give effect to any adjustments, which may be necessary should the Company be unable to continue as a going concern.

**2. ACCOUNTING POLICIES**

a) Basis of Presentation

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

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

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**2. ACCOUNTING POLICIES** (Continued)

b) Use of Estimates

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

c) Geothermal Properties

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

d) Office Equipment

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

e) Income Taxes

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

f) Stock Based Compensation

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

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**2. ACCOUNTING POLICIES** (Continued)

f) Stock Based Compensation (Continued)

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

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

g) Financial Instruments

The Company’s financial instruments consist of cash and equivalents, Goods and Services Tax recoverable, due from affiliated company, and accounts payable and accrued liabilities. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

h) Loss Per Share

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

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

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**2. ACCOUNTING POLICIES** (Continued)

i) Foreign Currency Translation

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

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

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

j) Cash and Cash Equivalents

For purposes of the balance sheet and statement of cash flows, the Company considers all highly liquid short-term investments with maturity of three months or less to be cash equivalents. At December 31, 2004, the Company had no cash equivalents.

**3. REVERSE TAKE-OVER**

Effective December 19, 2003, GTH acquired 100% of the issued and outstanding voting shares of GEO-Idaho by issuing 6,939,992 common shares and 2,420,217 share purchase warrants. Each share purchase warrant entitles the holder to purchase one additional common share at a price of \$0.75 per share until December 15, 2005. Since the transaction resulted in the former shareholders of GEO-Idaho owning the majority of the issued shares of GTH, the transaction, which is referred to as a "reverse take-over", has been treated for accounting purposes as an acquisition by GEO-Idaho of the net assets and liabilities of GTH. Under this purchase method of accounting, the results of operations of GTH are included in these financial statements from December 23, 2003. GEO-Idaho is deemed to be the purchaser for accounting purposes. Accordingly, its net assets are included in the balance sheet at their previously recorded values.

The acquisition is summarized as follows:

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

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**4. RIVER RAFT GEOTHERMAL PROPERTY**

GEO-Idaho entered into an agreement, as amended December 3, 2002, with Vulcan Power Company (“Vulcan”), a company incorporated in Oregon, U.S.A., to purchase a 100% interest in the Raft River Geothermal Property (“the Property”) located in Cassia County, Idaho, U.S.A.

As at December 31, 2004, the Company has acquired a 75% interest in the Property as successor to GEO-Idaho, which had issued to Vulcan Power Company, 1,895,000 shares and 1,612,000 warrants of GEO-Idaho (which were exchanged for 1,755,156 shares and 2,420,217 warrants of the Company as described in Note 3), and had agreed to make cash payments totalling \$475,000, and to complete a work program of \$200,000.

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

The following costs have been incurred on the project:

	Dec. 31 2004	Sept. 30 2004	June 30 2004
Property acquisition costs			
Balance, beginning of period	<u>\$492,000</u>	<u>\$492,000</u>	<u>\$492,000</u>
Deferred exploration costs			
Balance, beginning of period	<u>138,853</u>	<u>302,247</u>	<u>35,440</u>
Property lease payments	25,698	-	10,200
Field work/Geological consulting	75,793	34,625	493,960
Well monitoring and permits	848	7,498	4,327
Water Rights, Power studies and PPA Activities	(197)	715	-
	<u>102,142</u>	<u>42,838</u>	<u>508,487</u>
Less: Grants received/receivable	(52,706)	(206,232)	(241,680)
	<u>49,436</u>	<u>(163,394)</u>	<u>266,807</u>
Balance, end of period	<u>188,289</u>	<u>138,853</u>	<u>302,247</u>
	<u>\$680,289</u>	<u>\$630,853</u>	<u>\$794,247</u>

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**5. SHARE CAPITAL**

a) Private Placement

- i) On October 20, 2004, the Company issued 278,735 shares in connection with the exercise of stock options.
- ii) On September 17, 2004, the Company issued 4,000,001 units for a private placement at a price of \$0.85 CDN (\$0.66 U.S. as at September 30, 2004) per unit. Each unit consists of one common share and one share purchase warrant. Each full share purchase warrant entitles the holder to purchase one additional common share at a price of \$1.25 CDN (\$0.98 U.S. as at September 30, 2004) per share until September 17, 2006. Should the closing price of the Company's common shares exceed \$1.65 CDN (\$1.29 U.S. as at September 30, 2004) per share for twenty consecutive trading days, the exercise date of the warrants can be accelerated to a date not earlier than twenty days following the date of the press release indicating the acceleration.

In payment for services provided in connection with the private placement, the Company paid \$185,938 in cash and granted 280,000 agent's warrants exercisable at a price of \$0.85 CDN (\$0.66 U.S. as at September 30, 2004) until September 17, 2006. The warrants are exercisable into units identical (including with respect to acceleration) to the units offered in the private placement. The fair value of \$133,341 as calculated by the Black-Scholes model was recorded as share issue cost.

- iii) On December 19, 2003, the Company issued 3,322,221 units for a private placement at a price of \$0.45 per unit. Each unit consists of one common share and one half of one share purchase warrant. Each full share purchase warrant entitles the holder to purchase one additional common share at a price of \$0.75 per share until December 15, 2005. In payment for services provided in connection with the private placement, the Company issued 83,333 agent's warrants to purchase up to 83,333 common shares, exercisable at a price of \$0.45 until December 15, 2005. The fair value of \$25,437 as calculated by the Black-Scholes model was recorded as share issue cost. The exercise date of the warrants issued in connection with the private placement and agent services can be accelerated to 30 days after written notice from the Company provided that the Company has obtained both: (i) a license from the permitting authorities for a 10 megawatt power plant; and (ii) power purchase and transmission agreements.

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**5. SHARE CAPITAL** (Continued)

b) Escrow Shares

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

	<b>DECEMBER 31 2004</b>
Common shares	<b>4,241,540</b>
Share purchase warrants	<b>1,785,463</b>

c) Stock Purchase Warrants

As at December 31, 2004, the following share purchase warrants are outstanding:

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

**6. STOCK OPTIONS OUTSTANDING**

The Company's 2004 stock option plan provides for the grant of incentive stock options for up to 2,200,000 common shares to employees, consultants, officers and directors of the company. Options are granted for a term of up to five years from the date of grant. Stock options granted generally vest over a period of eighteen months.

During the period ended December 31, 2004, the Company granted 460,000 new stock options to consultants, directors and officers exercisable at a prices ranging from \$0.56 (CDN \$0.72) to \$0.70 (CDN \$0.90) until November 10, 2009. Of the options currently outstanding, 436,250 vested by March 31, 2004, 436,250 more vested by September 30, 2004, and an additional 115,000 vested by December 31, 2004. Compensation expense related to vested stock options is recorded at their fair value as calculated by the Black-Scholes option pricing model (March 31, 2004 - \$55,744, September 30, 2004 - \$58,002, December 31, 2004 - \$67,711) and recorded as Stock based compensation. The remaining compensation expense will be recognized over the vesting period.

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**6. STOCK OPTIONS OUTSTANDING** (Continued)

The changes in stock options are as follows:

	<b>NUMBER</b>	<b>EXERCISE PRICE</b>
Balance outstanding, March 31, 2002 and 2003	-	\$ -
Granted	1,745,000	0.44
Balance outstanding, March 31, 2004	1,745,000	\$ 0.44
Granted	-	-
Balance outstanding, September 30, 2004	1,745,000	0.44
Cancelled	240,000	0.44
Exercised	278,735	0.44
Granted	460,000	0.57/0.71
Balance outstanding December 31, 2004	<u>1,686,265</u>	<u>\$ 0.44/0.57/0.71</u>

Stock options outstanding at December 31, 2004 are as follows:

- 1,226,265 exercisable at \$0.44 (US\$0.44 is the US\$ equivalent of the Cdn\$ exercise price at the March 31, 2004 exchange rate), expiring February 4, 2009.
- 460,000 exercisable at prices ranging from \$0.57 to \$0.71 (US\$0.57 to US\$0.71 is the US\$ equivalent of the Cdn\$ exercise price at the December 31, 2004 exchange rate), expiring November 10, 2009.

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**7. INCOME TAX LOSSES**

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

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

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

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

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

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

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**8. COMMITMENTS**

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

The leases provide for the following annual payments:

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

**9. RELATED PARTY TRANSACTIONS**

a) As at December 31, 2004, an amount of \$2,665 (December 31, 2003 - \$84,000) is payable to directors and officers of the Company.

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

	<u>Dec. 31, 2004</u>	<u>Dec. 31, 2003</u>
Management fees	\$ -	\$ 27,000
Salaries and wages	\$ 34,334	\$ -
Consulting and Admin.	\$ 28,893	\$ -
Legal fees	\$ 1,890	\$ -
Rent/Office costs	\$ 2,504	\$ -
Travel	\$ 15,840	\$ -
	<u>\$ 82,639</u>	<u>\$ 27,000</u>

**U.S. GEOTHERMAL INC.**

[www.usgeothermal.com](http://www.usgeothermal.com)

**Management Discussion and Analysis**

**For the 3rd Quarter Ended December 31, 2004**

## **U. S. Geothermal Inc.**

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

**(Stated in U. S. Dollars – unless otherwise indicated)**

#### ***INTRODUCTION***

The management's discussion and analysis ("MD&A") provides a detailed analysis of the financial condition and results of operations of U.S. Geothermal Inc. (formerly U. S. Cobalt Inc. and hereinafter referred to as "GTH" or the "Company") and compares the three month period ended December 31, 2004 financial results with those of the same period a year earlier. The MD&A should be read in conjunction with GTH's interim Financial Statements and related notes for the three months ended December 31, 2004, which have been prepared in accordance with generally accepted accounting principles in Canada.

Additional information about GTH is available at [www.sedar.com](http://www.sedar.com).

#### ***FORWARD LOOKING STATEMENTS***

GTH's registration statement with the U.S. Securities and Exchange Commission was declared effective on February 11, 2005.

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

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

(Stated in U. S. Dollars – unless otherwise indicated)

## 1.1 Date

The effective date of this MD&A is February 28, 2005.

## 1.2 Overall Performance

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

Since the transaction resulted in the former shareholders of Geo - Idaho owning the majority of the issued shares of GTH, the transaction, which is referred to as a "reverse take-over", has been treated for accounting purposes as an acquisition by Geo - Idaho of the net assets and liabilities of GTH. Under this purchase method of accounting, the results of operations of GTH are included in these financial statements from December 19, 2003. Geo - Idaho is deemed to be the purchaser for accounting purposes. Accordingly, its net assets are included in the balance sheet at their previously recorded values.

During the three months ended December 31, 2004, GTH was focused on (1) utilizing the results of the extended well testing program at the Raft River, Idaho geothermal project ("Raft River"), (2) the procurement of a power purchase agreement, and (3) the evaluation of acquisitions of new geothermal projects. The data collected in the well testing program was utilized by GeothermEx Inc. ("GeothermEx") to complete an independent productivity assessment that concluded that four production wells have an initial electrical power capacity of 13.8 megawatts utilizing binary cycle power process technology. On January 24, 2005, the Idaho Public Utilities Commission approved a long-term power purchase agreement with Idaho Power Company for the sale power output from the proposed GTH power plant.

On February 11, 2005 the Company's SB-2 registration statement went effective with the U.S. Securities and Exchange Commission ("SEC").

Confidentiality agreements are entered into from time to time, with independent entities to allow for discussions of geothermal power development projects including the potential acquisition of an existing geothermal power plant.

Although the market for different forms of energy is large and dominated by very powerful players, we perceive our industrial competition to be independent power producers and in particular those producers who provide "green" renewable power. Our definition of green power is electricity derived from a source that does not pollute the air, water or earth. Sources of green

power, in addition to geothermal, include wind, solar, biomass and run-of-the river hydroelectric. Green power is a niche sub-market, in which many power purchasers are committed to increasing their investments. Accordingly, the conventional energy producers do not provide direct competition. In the Pacific Northwest there are currently no geothermal facilities. There exist a number of wind farms, as well as biomass and run-of-the river hydroelectric facilities. However, GTH believes that the combination of greater reliability from geothermal, access to infrastructure for deliverability, and a low “full life” cost will allow it to successfully compete for long term power purchase agreements.

### **1.3 Results of Operations**

The Company incurred a net loss of \$186,909 after interest income of \$9,893 and a gain on foreign exchange in the amount of \$151,470 for the three months ended December 31, 2004, as compared to a net loss of \$134,781 for the same period in 2003 with no interest income or foreign exchange amounts. During the three months ended December 31, 2004 there were no revenues, which was the situation for the same period ended December 31, 2003 as GTH was still in a development stage and had not yet placed its reservoir into commercial electricity power generation.

Expenses were \$348,272 as compared to \$134,781 for the same period a year earlier. Consulting fees increased to \$43,572 for the three months ended December 31, 2004, and were nil for the same period ended December 31, 2003. The increase in consulting fees was due to a \$19,685 fee paid to Dundee Securities in connection with potential project financing and evaluation of new projects, corporate relations consultants who received \$8,610 and consultants who worked on the PPA who received a total of \$15,277. The amount for consulting fees in 2003 was nil due to the fact that Geo-Idaho did not have any consultants conducting activities in relation to Raft River, which was still in a preliminary stage while Geo-Idaho was focussing on the reverse takeover transaction.

In the three month period ended December 31, 2004, professional fees increased to \$100,724 from \$25,563 for the period ended December 31, 2003. The increase was due in part to legal work incurred in connection with the Company’s registration statement in the amount of \$38,032, and approximately \$7,555 was spent on legal work for the PPA, public utility submissions and on water rights. The Company expended \$9,840 on corporate legal fees during the quarter as well as \$11,653 on audit work associated with the Company’s registration statement. Salaries and wages grew to \$64,580 from nil the previous year as the Company made payments to its contracted employees.

Management fees were nil in the quarter ended December 31, 2004 compared to \$27,000 a year earlier as three of the corporate officers who were being paid management fees previously, are now being paid a salary in connection with their contracted employment.

Corporate administration and development was \$3,710 compared to \$4,520 a year earlier. Travel and promotion was \$16,719 compared to \$2,406 in the same period in 2003. This increase resulted from the need to travel between the two corporate offices becoming necessary more often due to the increased activity regarding management of corporate activities, prospective new projects, as well as the ongoing work at Raft River. The Company also recorded an Insurance expense during the quarter in the amount of \$49,886 in connection with Directors and Officers insurance.

There was an expense of \$69,081 for stock based compensation during the quarter December 31, 2004 (December 31, 2003 – nil), which related to the grant of new stock options during the quarter.

Raft River is the Company’s initial, and currently sole project; however, the Company remains active in the pursuit of other potential acquisitions. The carrying value of Raft River increased from \$630,853 at September 30, 2004 to \$680,289 at December 31, 2004 (a difference of \$49,436), as the expenditures during the period (see breakdown below) exceeded reimbursements receivable from a U.S. Department of Energy (“U.S. DOE”) Geothermal Resources Exploration and Definition (“GRED”) grant. There was no write-down of assets.

Field work	75,793
Property lease payments	25,698
Well monitoring and permits	<u>651</u>
	102,142
Less U.S. DOE GRED grant received during the quarter:	<u>(52,706)</u>
	\$ 49,436

The main focus for GTH continues to be the development of the Raft River Idaho Geothermal Project. Management completed its objective to enter into a long-term power purchase agreement (“PPA”) with Idaho Power Company for the electrical output from Phase One of the Raft River geothermal power project on December 29, 2004. The 20-year contract is regulated by the Idaho Public Utilities Commission under the Public Utilities Regulatory Policies Act of 1978, and provides published electric power prices for a monthly average output of 10 megawatts (“MW”) of electric power. The contract was submitted to the Idaho Public Utilities Commission for final approval, which was received on January 24, 2005.

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

## 1.4 Summary of Quarterly Results

Quarter	Revenues	Income (loss) for the period	Basic income (loss) per share
31-Dec-04	Nil	-\$186,909	-\$0.01
30-Sep-04	Nil	-\$350,910	-\$0.03
30-Jun-04	Nil	-\$145,413	-\$0.01
31-Mar-04	Nil	-\$163,865	-\$0.02
31-Dec-03	Nil	-\$134,781	-\$0.04
30-Sep-03	Nil	-\$12,785	Nil
30-Jun-03	Nil	-\$3,742	Nil
31-Mar-03	Nil	-\$91,644	-\$0.02

The results in the table above are for Geo-Idaho up until the quarter ended September 30, 2003 and for GTH from October 1, 2003 until the date of this report. Geo-Idaho did not record any expenses until the quarter ended December 31, 2002. In the quarter ended December 31, 2002, Geo-Idaho paid \$20,000 for technical reports relating to Raft River and incurred approximately \$35,000 in management fees and accounting related expenses. The loss incurred in the quarter ended March 31, 2003 was higher than the corresponding period in 2002 due to increased management costs and substantially higher audit and accounting charges relating to the reverse takeover. The quarters ended June and September 2003 saw lower losses as a result of reduced Raft River and associated management activities while Geo-Idaho was finalizing the reverse takeover transaction. Losses grew in the quarter ended December 31, 2003 as the reverse takeover closed and the losses of GTH were added to those of Geo-Idaho. The quarter ended March 31, 2004, saw an even larger loss being incurred as the Company advanced its activities in relation to Raft River and additional staff and consultants were hired to evaluate current and potential projects/opportunities. Costs remained steady during the quarter ended June 30, 2004, as the Company continued its efforts at Raft River by employing consulting engineers and conducting corporate relations activities. The spike in losses during the quarter ended September 30, 2004 was as a result of substantially higher professional fees, which arose from the Company's increased need for legal counsel on both the filing and amended filing of an SEC registration statement. There were also professional legal fees incurred in connection with the Cdn \$3.4 million private placement financing the Company closed on September 17, 2004. The quarter ended December 31, 2004 had a gain on foreign exchange of \$151,470 and interest income of \$9,893 with expenses totalling \$348,272. The expenses were similar in the quarter immediately prior as the Company maintained its increased activities at Raft River.

In our annual MD&A, the Company discussed the high degree of risk that exists prior to establishing that the geothermal reservoir is economically exploitable. On August 31, 2004, the Company announced that it had completed a successful flow test program on Raft River and was pleased to report the preliminary results. All five production wells were flow tested under artesian (natural flow) conditions. In addition, temperature-pressure surveys were completed on the production wells under both static and flowing conditions. Testing to date confirmed that the wells are in excellent condition.

Data from the flow test program was transferred to GeothermEx to be analyzed, interpreted and integrated with existing data to forecast production capabilities of the existing wells and injection responses. On November 8, 2004, the Company announced the completion of the well test program at Raft River. GeothermEx concluded that four of the five existing production wells have an initial capacity of 13.8 MW, net of pump parasitic load, which would support at least a 10 MW net electrical power output. The fifth production well was found to be non-commercial, but will be studied for re-drilling of a new directional leg toward a more productive flow zone.

GeothermEx analyzed and interpreted the flow test data and integrated it with existing data to forecast the net electrical power production capabilities of the wells. In addition to the power generation forecast, the GeothermEx report states the following:

- The Raft River energy field has commercially attractive flow capacity.

- There is little influence of any specific faults or local geologic control on well productivity, implying a relatively low risk in locating future production and injection wells.
- The production wells exhibit an artesian head pressure of 140 psi (966 kilopascals), produce very low salinity water and have low dissolved gas content at temperatures of 272 to 300 F (133 C to 149 C).
- After 20 years of operation with fixed pump setting depths and without drilling any make-up wells, the net power capacity from the 4 wells (after subtracting the parasitic load of pumping) will decline to 9.5 MW for a pump setting depth of 1,500 feet (480 meters).

The well test program indicated the potential commercial viability of the geothermal reservoir at Raft River and will be used in the final design of the project's phase one 10 MW net power plant. The Company plans to commercialize the existing well field as phase one of a staged expansion of Raft River.

The Idaho Public Utilities Commission approved a long-term power purchase agreement with Idaho Power Company for the power output from the plant on January 24, 2005.

On January 28, 2005, the U.S. DOE Geothermal Technologies Program notified GTH that it has been awarded a \$2.2 million dollar grant to assist in the development and construction of an innovative power generation application based on ammonia absorption at its Raft River 10MW geothermal power project, if GTH determines that the new application is feasible. The grant will help mitigate the technical risks of certain equipment components considered to be new applications of existing technology. A conventional power plant will be constructed at Raft River without the U.S. DOE grant if the new application is determined to be unfeasible.

On October 22, 2004 the United States Congress passed the JOBS bill which included provisions for extending to all renewable energy sources, including geothermal, the current production tax credit ("PTC") available to wind power projects. The production tax credit has been extended to projects that come on line before December 31, 2005. Raft River is currently planned to come on line in mid to late 2006 therefore the PTC is not currently applicable to Raft River. Management has been in discussions with congressional staff and geothermal association groups and have been advised that it is likely that the PTC will be renewed and made available to projects coming on line in 2006. There can be no assurance that the PTC will be extended but if it is there is a significant potential economic benefit available to Raft River in the form of lower income tax rates for the project over the first 5 to 10 years of the project life.

With the new developments in the Company, substantial additional financing will be needed to construct, commission and operate a power plant at Raft River in order to generate and sell electricity. There can be no assurance that the Company will be able to obtain the financing required to meet our obligations.

## 1.5 Liquidity

At December 31, 2004, GTH had an accumulated deficit of (\$1,621,136). The Company expects to incur losses for at least the next 24 months. There can be no assurance that the Company will ever make a profit. To achieve profitability, the Company must obtain financing to build and commission a geothermal electrical power generation facility. At December 31, 2004, the cash position of the Company was \$2,552,382 as compared to \$2,605,722 at September 30, 2004. Working capital was \$2,545,705 at December 31, 2004 as compared to \$2,583,599 three months earlier. Additional financing will be required to fund the cost of continued development of the Raft River project and other operating activities, including the construction and commissioning of a power generation facility.

During the quarter, GTH had a grant receivable of \$52,706 in connection with its Raft River GRED non-repayable, cost sharing grant from the U.S. DOE. Accordingly, the U.S. DOE will pay \$730,000 of the work over and well testing program, which is approximately 70% complete. GTH's financial exposure on completing this program has been reduced to approximately \$70,000, thus conserving our current financial resources.

There are currently no long-term debts, capital lease obligations, operating leases or purchase obligations. Geothermal energy rights annual lease rentals are approximately as follows:

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

## 1.6 Capital Resources

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

A prospective source of additional funding may come from the exercise of outstanding stock options and stock purchase warrants (See Note 5c and Note 6 of the December 31, 2004 Financial Statements), which at December 31, 2004 represents approximately \$8.46 million in equity capital. There can be no assurance that this source of capital will be forthcoming.

## 1.7 Off Balance Sheet Transactions

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

## 1.8 Related Party Transactions

A. During the quarter ended December 31, 2004 the Company paid \$130,697 to eliminate amounts owing to directors and officers of the Company.

B. During the quarter ending December 31, 2004 GTH incurred the following transactions with directors, officers and a company with a common director:

- Daniel Kunz, CEO, President and Director, received \$10,334 in salary during the quarter (contract payment of \$2,000 per month in October and \$4,167 per month in November and December). He also received \$5,000 during the quarter, which was used in its entirety to pay a consultant who performed accounting services for the Company. The consultant was paid \$2,500 in each of October and November. The Company also sub-leases general office space at cost for its executive office in Boise, Idaho from Mr. Kunz. In the quarter ended December 31, 2004, the Company paid \$2,504 for office rent costs. Mr. Kunz was also reimbursed for his company-related travel expenses during the quarter, which were \$3,845.
- Douglas Glaspey, COO and Director, received \$18,000 in salary during the quarter (contract payment of \$3,000 per month in October and \$7,500 per month in November and December). Mr. Glaspey was reimbursed for his company-related travel expenses during the quarter, which were \$8,279.
- Ron Bourgeois, CFO and Secretary until December 31, 2004, received \$6,000 in salary during the quarter (contract payment of \$2,000 per month). Mr. Bourgeois was reimbursed for his company-related travel expenses during the quarter, which were \$500.
- Paul Larkin, Director, received \$6,000 in financial consulting fees during the quarter (contract payment of \$2,000 per month). Mr. Larkin was reimbursed for his company-related travel expenses during the quarter, which were \$2,394.
- New Dawn Holdings Ltd., a company controlled by a director in common (Mr. Larkin), received \$13,143 for administrative and consulting services, which included the preparation and dissemination of the Company's interim financial statements as well as accounting and corporate relations activities. New Dawn employed three individuals to perform these services.
- John Walker, Chairman of the Board and Director, received \$2,500 in director fees during the quarter.
- Jon Wellinghoff, Director, received \$2,250 in director fees during the quarter.
- Beckley Singleton, a law firm based in Las Vegas, Nevada, employs an attorney (Jon Wellinghoff) who is an independent director of U.S. Geothermal. Approximately \$1,890 was paid to Beckley Singleton for legal services during the quarter.

## **1.9 Risk Factors**

An investment in shares of our common stock involves a high degree of risk. You should read the discussions of risk factors contained in our annual MD&A before you purchase any shares of our common stock. The annual MD&A is available on [www.sedar.com](http://www.sedar.com).

## **1.10 Proposed Transactions**

Confidentiality agreements are entered into from time to time, with independent entities to allow for discussions of geothermal power development projects including potential acquisition of an existing power plant.

## **1.11 Changes in Accounting Policies**

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

## **1.12 Financial Instruments**

GTH’s financial instruments consist of cash and cash equivalents, Goods and Services Tax recoverable, due from affiliated company, and accounts payable and accrued liabilities. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

## 1.13 Other Information

There were 4,000,001 shares issued from treasury during the quarter ended September 30, 2004. An additional 278,735 shares were issued during November, resulting in total shares outstanding as at December 31, 2004 of 17,201,429.

	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFICIT	TOTAL
Balance, March 31, 2004	12,922,693	\$ 12,923	\$ 2,148,787	\$ -937,904	\$ 1,223,806
Shares issued for:					
Private placement, net of share issue costs of \$225,130	4,000,001	\$ 4,000	\$ 2,486,029	\$ -496,323	\$ 1,993,706
Balance, September 30, 2004	16,922,694	\$ 16,923	\$ 4,634,816	\$ -1,434,227	\$ 3,217,512
Shares issued for:					
Exercise of stock options	278,735	\$ 278	\$ 198,090	\$ -186,909	\$ 11,459
Balance Dec 31, 2004	17,201,429	\$ 17,201	\$ 4,832,906	\$ -1,621,136	\$ 3,228,971

As at February 28, 2005, the Company had the following common shares and share purchase warrants held in escrow:

	DECEMBER 31 <u>2004</u>
Common shares	4,241,540
Share purchase warrants	1,785,463

Share purchase warrants outstanding at February 28, 2005 were as follows:

NUMBER OF WARRANTS	EXERCISE PRICE	EXPIRY DATE
4,081,327	\$0.75	15-Dec-05
192,932	\$0.75	17-Feb-06
83,333	\$0.45	15-Dec-05
4,280,001	\$1.25 Cdn	17-Sep-06
280,000	\$0.85 Cdn	17-Sep-06
<u>8,917,593</u>		

The following table summarizes stock options information at February 28, 2005:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE	NUMBER OF SHARES	REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SHARES	EXERCISE PRICE
\$ 0.60 Cdn	1,226,265	4.14	474,265	\$ 0.60 Cdn

On October 20, 2004, 278,735 options were exercised for gross proceeds of \$130,657. On November 10, 2004, there were 240,000 options cancelled and 460,000 new options granted to consultants and employees of the Company with an expiry date of November 10, 2009 and exercise prices varying from \$0.72 Cdn to \$0.90 Cdn.

**FORM 52-109F2**  
**CERTIFICATION OF INTERIM FILINGS**

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

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) of **US Geothermal Inc.**, (the issuer) for the interim period ending December 31, 2004;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;

March 1, 2005

“Daniel Kunz”

Daniel Kunz  
CEO and Director

**FORM 52-109F2**  
**CERTIFICATION OF INTERIM FILINGS**

I, Kerry Hawkley, CFO, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) of **US Geothermal Inc.**, (the issuer) for the interim period ending December 31, 2004;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;

March 1, 2005

“Kerry Hawkley”

Kerry Hawkley,  
CFO and Secretary