

U.S. GEOTHERMAL INC.



Consolidated Financial Statements
March 31, 2011

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

	March 31, 2011	March 31, 2010
ASSETS		
Current:		
Cash and cash equivalents	\$ 8,098,905	\$ 12,970,612
Restricted cash (note 3)	645,000	585,000
Receivable from subsidiary	282,257	335,684
Trade accounts receivable	532,605	176,880
Other current assets	164,239	152,950
Total current assets	9,723,006	14,221,126
Deposit on mineral rights purchase	200,000	-
Investment in equity securities (note 4)	178,486	210,975
Investment in subsidiaries (note 5)	17,968,651	18,103,239
Property, plant and equipment, net of accumulated depreciation (note 6)	40,295,117	16,550,006
Intangible assets, net of accumulated amortization (note 7)	16,957,708	16,642,515
Total assets	\$ 85,322,968	\$ 65,727,861
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 940,563	\$ 446,790
Related party accounts payable	2,338	1,897
Current portion of capital lease obligation	12,736	11,837
Promissory note payable, current (note 10)	230,000	-
Total current liabilities	1,185,637	460,524
Long-term Liabilities:		
Capital lease obligation, less current portion	14,372	27,108
Promissory note payable (note 10)	-	230,000
Stock compensation payable	1,527,829	1,823,751
Convertible loan payable (note 11)	5,132,740	-
Construction loans payable (note 12)	11,651,861	-
Total liabilities	19,512,439	2,541,383
Commitments and Contingencies (note 19)	-	-
STOCKHOLDERS' EQUITY		
Capital stock (authorized: 250,000,000 common shares with a \$0.001 par value; issued and outstanding shares at March 31, 2011 and 2010 were: 84,761,956 and 78,647,776; respectively)	84,762	78,648
Additional paid-in capital	90,283,987	83,667,011
Accumulated other comprehensive income	108,990	136,693
Accumulated deficit	(25,308,177)	(21,353,761)
Total stockholders' equity	65,169,562	62,528,591
Non-controlling interest (note 20)	640,967	657,887
Total stockholders' equity	65,810,529	63,186,478
Total liabilities and stockholders' equity	\$ 85,322,968	\$ 65,727,861

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

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

	Years Ended March 31,		
	2011	2010	2009
Operating Revenues:			
Energy sales, San Emidio	\$ 2,438,471	\$ 1,743,984	\$ 1,416,852
Energy credit sales, San Emidio	79,569	51,695	32,437
Land, water, and mineral rights leases	196,893	209,544	97,098
Management fees	250,000	250,000	250,000
Gain from investment in subsidiary	288,612	323,929	539,815
Total operating revenues	3,253,545	2,579,152	2,336,202
Operating Expenses:			
Consulting fees	20,823	59,777	121,599
Corporate administration	740,560	803,417	753,045
Professional and management fees	1,108,170	1,669,227	997,452
Salaries and wages	1,084,385	1,171,752	1,180,647
Stock based compensation	1,066,565	1,468,169	1,614,789
Travel and promotion	378,528	308,502	511,568
Plant operations, San Emidio	2,760,309	2,942,548	2,265,277
Lease and equipment repair	133,555	138,953	216,491
Total operating expenses	7,292,895	8,562,345	7,660,868
Loss from Operations	(4,039,350)	(5,983,193)	(5,324,666)
Other Income (Loss):			
Foreign exchange gain (loss)	(4,922)	20,004	(41,507)
Other income	29,844	-	880
Interest income	42,092	103,994	158,771
Total other income	67,014	123,998	118,144
Net Loss	(3,972,336)	(5,859,195)	(5,206,522)
Net loss attributable to the non-controlling interest	17,920	20,345	18,768
Net Loss Attributable to U.S. Geothermal Inc.	(3,954,416)	(5,838,850)	(5,187,754)
Other Comprehensive Income (Loss):			
Unrealized gain (loss) on investment in equity securities	(27,703)	40,802	95,891
Comprehensive Loss Attributable to U.S. Geothermal Inc.	\$ (3,982,119)	\$ (5,798,048)	\$ (5,091,863)
Basic And Diluted Net Loss Per Share Attributable to U.S. Geothermal Inc.	\$ (0.05)	\$ (0.09)	\$ (0.08)
Weighted Average Number of Shares Outstanding for Basic and Diluted Calculations	79,831,008	64,814,882	62,020,474

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

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

	For the Years Ended March 31,		
	2011	2010	2009
Operating Activities:			
Net loss	\$ (3,972,336)	\$ (5,859,195)	\$ (5,206,522)
Non-cash items:			
Depreciation and amortization	1,304,939	990,061	865,057
Gain on operations of subsidiary	(288,612)	(323,929)	(539,815)
Foreign exchange (gain) loss	4,922	(20,004)	34,237
Loss on equity investment	4,964	-	-
Loss on disposal of equipment	-	900	-
Stock based compensation	1,066,565	1,468,169	1,614,789
Change in non-cash working capital items:			
Accounts receivable	(302,298)	(126,665)	(180,866)
Accounts payable and accrued liabilities	(15,436)	(101,770)	102,707
Prepaid expenses & other	(11,289)	(17,145)	(50,339)
Total cash used by operating activities	<u>(2,208,581)</u>	<u>(3,989,578)</u>	<u>(3,360,752)</u>
Investing Activities:			
Purchases of property, plant and equipment	(13,070,992)	(4,828,128)	(21,960,096)
Investment by non-controlling interest	1,000	-	-
Cash restricted by regulating entities	(60,000)	(100,000)	(200,000)
Cash paid on deposit of mineral rights purchase	(200,000)	-	-
Cash released from escrow for property acquisition	-	-	11,310,686
Investment in subsidiaries and equity securities	-	-	(940,100)
Distributions from subsidiary	418,236	722,222	-
Proceeds from sale of equipment	-	500	-
Total cash used by investing activities	<u>(12,911,756)</u>	<u>(4,205,406)</u>	<u>(11,789,510)</u>
Financing Activities:			
Issuance of share capital, net of share issue costs	5,260,467	17,494,503	13,728,608
Proceeds from notes payable	5,000,000	230,000	-
Principal payments on capital lease	(11,837)	(10,998)	(3,507)
Total cash provided by financing activities	<u>10,248,630</u>	<u>17,713,505</u>	<u>13,725,101</u>
Increase (Decrease) in Cash and Equivalents	(4,871,707)	9,518,521	(1,425,161)
Cash and Cash Equivalents, Beginning of Period	12,970,612	3,452,091	4,877,252
Cash and Cash Equivalents, End of Period	\$ 8,098,905	\$ 12,970,612	\$ 3,452,091
Supplemental Disclosures:			
Non-cash investing and financing activities:			
Amendment to geothermal lease with common stock	\$ -	\$ -	\$ 783,000
Purchase of equipment with capital lease	-	-	53,450
Contribution of geothermal rights by non-controlling interest	-	-	697,000
Purchase of property and equipment on account	509,650	12,733	145,658
Plant construction from construction loan	11,433,435	-	-
Capitalized accrued interest	351,166	-	-
Other Items:			
Interest paid	9,955	8,676	1,752

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

U.S. GEOTHERMAL INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended March 31, 2009, 2010 and 2011
(Stated in U.S. Dollars)

	Number of Shares	Common Shares	Additional Paid-In Capital	Stock Issuable	Accumulated Deficit	Accumulated Comprehensive Income	Non- controlling Interest	Totals
Balance at April 1, 2008	55,339,253	\$ 55,339	\$ 48,532,730	\$ -	\$ (10,327,157)	\$ -	\$ -	\$ 38,260,912
Capital stock issued as result of a private placement closed April 28, 2008, net of issuance costs	6,382,500	6,383	13,711,784	-	-	-	-	13,718,167
Capital stock issued for amendment to royalty agreement with the Kosmos Company	290,000	290	782,710	-	-	-	-	783,000
Shares issued for stock options and warrants exercised	22,134	22	10,418	-	-	-	-	10,440
Adjustment to entitlement shares from consolidated Mango and US Cobalt stock consolidations	(5)	-	-	-	-	-	-	-
Formation contribution by non-controlling interest (Gerlach Green Energy, LLC)	-	-	-	-	-	-	697,000	697,000
Stock based compensation	-	-	1,657,207	-	-	-	-	1,657,207
Unrealized gain on investment	-	-	-	-	-	95,891	-	95,891
Net loss	-	-	-	-	(5,187,754)	-	(18,768)	(5,206,522)
Balance at March 31, 2009	<u>62,033,882</u>	<u>\$ 62,034</u>	<u>\$ 64,694,849</u>	<u>\$ -</u>	<u>\$ (15,514,911)</u>	<u>\$ 95,891</u>	<u>\$ 678,232</u>	<u>\$ 50,016,095</u>

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

U.S. GEOTHERMAL INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY - Continued
For the Years Ended March 31, 2009, 2010 and 2011
(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 13)	-	-	-	9,120,294	-	-	-	9,120,294
Stock issued from subscription receipts on December 17, 2009 (note 13)	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	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
Capital stock issued as result of a direct placement closed March 4, 2011, net of issuance costs	5,112,000	5,112	4,926,877	-	-	-	-	4,931,989
Stock issued from the exercise of stock options	297,180	297	328,318	-	-	-	-	328,615
Stock issued for the stock compensation plan (restricted shares)	235,000	235	232,415	-	-	-	-	232,650
Stock issued, restricted until vesting period complete (note 15)	470,000	470	28,252	-	-	-	-	28,722
Initial formation contribution by non-controlling interest in Oregon USG Holdings, LLC (note 20)	-	-	-	-	-	-	1,000	1,000
Stock compensation liability	-	-	1,101,114	-	-	-	-	1,101,114
Unrealized gain on investment	-	-	-	-	-	(27,703)	-	(27,703)
Net loss	-	-	-	-	(3,954,416)	-	(17,920)	(3,972,336)
Balance at March 31, 2011	<u>84,761,956</u>	<u>\$ 84,762</u>	<u>\$ 90,283,987</u>	<u>\$ -</u>	<u>\$ (25,308,177)</u>	<u>\$ 108,990</u>	<u>\$ 640,967</u>	<u>\$ 65,810,529</u>

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

U.S. GEOTHERMAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011
(Stated in U.S. Dollars)

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

When U.S. Cobalt Inc. (“GTH” or the “Company”) completed a reverse take-over on December 19, 2003, the former stockholders of U.S. Geothermal Inc. (“GEO – Idaho”) a company incorporated on February 26, 2002 in the State of Idaho, U.S.A. acquired control of GTH. In connection with the transaction, U.S. Cobalt Inc. changed its name to U.S. Geothermal Inc. and consolidated its common stock on a one new to five old basis. All references to common shares in these financial statements have been restated to reflect the roll-back of common stock. The Company constructs and manages power plants that utilize geothermal resources to produce energy. The Company’s operations have been, primarily, focused in the Western United States of America.

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

Basis of Presentation

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Accounting Method

The Company's 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 March 31, 2011 and 2010, 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 commercial banks in Boise, Idaho and Portland, Oregon. Deposits are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per legal entity through December 31, 2013. At March 31, 2011, the Company's total cash balance, excluding money market funds, was \$1,133,878, and bank deposits amounted to \$1,255,208. The difference was due to outstanding checks and deposits. Of the bank deposits, \$318,670 was not covered by or was in excess of FDIC insurance guaranteed limits. At fiscal year end, the Company's money market funds invested in government backed securities totaled \$7,610,027, and were not subject to deposit insurance.

Equity Securities

The Company determine the appropriate classification of marketable securities at the time of purchase and reevaluate this designation as of each balance sheet date. The Company 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. Interest costs incurred during the construction period of defined major projects from debt that is specifically incurred for those projects are capitalized.

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	3 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. 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 March 31, 2011.

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 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 reward 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.

Stock Based Compensation Granted to Employees

The Company recognizes the value of common stock granted to employees and directors over the periods in which the services are received. The value of those services is based upon the estimated fair value of the common stock to be awarded. Estimated fair value is adjusted each reporting period. At the end of each vesting period, estimated fair value is adjusted to fair market value. The adjustment is reflected in the reporting period in which the vesting occurs.

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 March 31, 2011 and 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 March 31, 2011 and 2010 were 102,665,193 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

Accounting for Various Topics

In January 2010, FASB issued Financial Accounting Standards Update 2010-22, *Accounting for Various Topics* ("Update 2010-22"). Update 2010-22 provides clarifications when to separate financial statement elements based upon materiality and volatility. The update was issued August 2010. Management believes that the Company is currently in compliance with the applicable contents of this update, and will continue to evaluate its impact on financial statements.

Accounting for Technical Amendments to Various SEC Rules and Schedules

In January 2010, FASB issued Financial Accounting Standards Update 2010-21, *Accounting for Technical Amendments to Various SEC Rules and Schedules* ("Update 2010-21"). Update 2010-21 provides clarifications on terminology on various elements that primarily pertain to the statement of equity. It also provided guidance on the proper reporting of changes in certain elements of equity. The update was issued August 2010. Management believes that the Company is currently in compliance with the applicable contents of this update, and will continue to evaluate its impact on financial statements.

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:

<u>State Agency</u>	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Idaho Department of Water Resources, Geothermal Well Bond	\$ 260,000	\$ 260,000
Bureau of Land Management, Geothermal Lease Bond – Gerlach Geothermal	10,000	-
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>175,000</u>	<u>125,000</u>
	<u>\$ 645,000</u>	<u>\$ 585,000</u>

These bonding requirements ensure that the Company has sufficient financial resources to construct, operate and 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 corporation) activities consisted of the following:

	<u>Amount</u>
Available-for-sale equity securities:	
Cost basis	\$ 88,515
Unrealized gains	95,891
Foreign exchange losses	<u>(34,237)</u>
Fair value at March 31, 2009	150,169
Net unrealized gains/(losses)	40,802
Foreign exchange gains	<u>20,004</u>
Fair value at March 31, 2010	210,975
Net unrealized gains/(losses)	(27,703)
Foreign exchange losses	<u>(4,786)</u>
Fair value at March 31, 2011	<u>\$ 178,486</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 power plant, and Raft River Holdings was required to contribute \$34,170,100.

As of March 31, 2011, 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 periods after August 2006, U.S. Geothermal Inc. recorded RREI under the equity method of accounting for investments in subsidiaries based on the HLBV method.

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

	December 31, 2010	December 31, 2009	November 28, 2008
Total current assets	\$ 908,866	\$ 808,084	\$ 1,994,238
Property and equipment	45,939,087	47,993,261	50,016,779
	<u>\$ 46,847,953</u>	<u>\$ 48,801,345</u>	<u>\$ 52,011,017</u>
Total liabilities	\$ 434,925	\$ 791,116	\$ 1,434,413
Total members' equity	46,413,028	48,010,229	50,576,604
	<u>\$ 46,847,953</u>	<u>\$ 48,801,345</u>	<u>\$ 52,011,017</u>

	Year Ended December 31, 2010	Year Ended December 31, 2009	Month Ended December 26, 2008	Fiscal Year Ended November 28, 2008
Operating revenues	\$ 4,542,477	\$ 4,718,949	\$ 537,831	\$ 4,880,303
Operating earnings (loss)	(747,544)	(2,278,806)	352,483	(528,916)
Net earnings (loss)	(747,396)	(2,270,718)	352,960	(448,593)
U.S. Geothermal Inc., portion of net earnings (loss)	\$ 375,053	\$ 279,072	\$ 54,713	\$ (156,060)

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	17,105,699
	Capital Contributions	948,054
	Allocation of profit/loss	539,815
	Prepaid amount	(97,000)
March 31, 2009	Investment Account Balance	18,496,568
	Cash distributions	(722,222)
	Allocation of profit/loss	323,929
March 31, 2010	Investment Account Balance	18,098,275
	Cash distributions	(418,236)
	Allocation of profit/loss	288,612
March 31, 2011	Investment Account Balance	\$ 17,968,651

An investment in a northwest British Columbia geothermal prospect totaling \$0 and \$4,964 as of March 31, 2011 and 2010 is also recorded on the balance sheet as an investment in subsidiary in addition to the investment in Raft River Energy I LLC.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

During the fiscal year ended March 31, 2011, the Company was primarily focused on the development of the Neal Hot Springs, Oregon and San Emidio, Nevada projects. At Neal Hot Springs, drilling and testing costs for wells #2, 8, 10 and 13 amounted to approximately \$7.6 million during the fiscal year. Over \$3.5 million in legal, design, permitting and initial construction costs were incurred for the Neal Hot Springs plant site and pipelines. The total costs of the Neal Hot Springs project are estimated to be \$106 million. Power plant construction costs, at San Emidio amounted to approximately \$12.1 million during the fiscal year. The plant is expected to be completed in September 2011, and construction costs are expected to total \$25 million. Also, at San Emidio, approximately \$718,000 (\$410,000 reimbursed by a federal grant) was incurred for surface geological mapping and a seismic survey.

During the fiscal year ended March 31, 2010, the Company continued well field evaluation and development activities at Neal Hot Springs, Oregon. Well No. 5 ("NHS-5") costing approximately \$1.9 million was substantially completed in October 2009. At fiscal year end, over \$379,000 had been spent on temperature gradient wells. Transmission line surveying and engineering costs were incurred for approximately \$191,000. Engineering, design and permitting costs of approximately \$365,000 were incurred for the future power plant and plant site.

Land and a building were purchased in San Emidio, Nevada for approximately \$262,000 for the site of new power plant. Improvements that amounted to over \$336,000 were made to the old San Emidio power plant during the fiscal year.

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

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Land	\$ 652,507	\$ 652,507
Power production plant	2,275,474	1,665,882
Wells	3,617,312	3,617,312
Furniture and equipment	874,132	785,606
	<u>7,419,425</u>	<u>6,721,307</u>
Less: accumulated depreciation	<u>(2,426,017)</u>	<u>(1,396,605)</u>
	4,993,408	5,324,702
Construction in progress	<u>35,301,709</u>	<u>11,225,304</u>
	<u>\$ 40,295,117</u>	<u>\$ 16,550,006</u>

For the year ended March 31, 2011, the Company incurred interest costs of \$361,121, of which \$351,166 was capitalized as a component of the Neal Hot Springs and San Emidio projects. Interest costs incurred during the years ended March 31, 2010 and 2009 were not significant and no interest was capitalized for those years.

Depreciation expense charged to operations for the years ended March 31, 2011, 2010, and 2009 amounted to \$1,029,412; \$714,534 and \$612,491; respectively.

Changes in Construction in Progress for the fiscal years ended March 31, 2011 and 2010, are summarized as follows:

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Beginning balances	\$ 11,225,304	\$ 7,807,445
Current development construction	25,300,205	3,417,859
Grant reimbursements	(1,223,800)	-
Transfers into production	-	-
Write-off of unsuccessful projects	-	-
Ending balances	<u>\$ 35,301,709</u>	<u>\$ 11,225,304</u>

Construction in Progress, at cost, consisted of the following projects/assets by location at fiscal year ends, are as follows:

	March 31, 2011	March 31, 2010
	<u> </u>	<u> </u>
Raft River, Idaho:		
Unit II, power plant, substation and transmission lines	\$ 1,000,273	\$ 733,284
Unit II, well construction	2,888,972	2,085,250
Grant reimbursements	(791,687)	-
	<u>3,097,558</u>	<u>2,818,534</u>
San Emidio, Nevada:		
Power plant (Re-power project)	12,104,457	50,872
Interconnection studies for transmission line	197,679	76,032
Well construction	3,396,408	2,678,102
Grant reimbursements	(432,113)	-
	<u>15,266,431</u>	<u>2,805,006</u>
Neal Hot Springs, Oregon:		
Wells	12,546,127	4,916,905
Buildings and site preparation	4,064,074	493,852
Transmission lines and substation	327,519	191,007
	<u>16,937,720</u>	<u>5,601,764</u>
	<u>\$ 35,301,709</u>	<u>\$ 11,225,304</u>

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.

On February 19, 2010, the Company completed a water rights purchase agreement between Empire Farms, LLC for the purchase of approximately 724 acre feet of water rights located in the San Emidio Dessert in Nevada for a final purchase price of \$700,000.

Intangible assets, at cost, are summarized as follows:

	March 31, 2011	March 31, 2010
	<u> </u>	<u> </u>
In operation:		
Geothermal and mineral rights	\$ 8,265,800	\$ 8,265,800
Less: accumulated amortization	(803,620)	(528,093)
	<u>7,462,180</u>	<u>7,737,707</u>
Inactive:		
Surface water rights	5,469,861	5,484,059
Geothermal and mineral rights	4,025,667	3,420,749
	<u>\$ 16,957,708</u>	<u>\$ 16,642,515</u>

Estimated aggregate amortization expense for the next five fiscal years is as follows:

Years ending March 31,	Projected Amounts
2012	\$ 275,527
2013	275,527
2014	275,527
2015	275,527
2016	275,527
	<u>\$ 1,377,635</u>

Amortization expense charged to operations for the years ended March 31, 2011, 2010 and 2009 amounted to \$275,527; \$275,527 and \$252,566; 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 March 31, 2011, the Company had net deferred tax assets calculated at an expected rate, noted in the table below, of approximately \$6,743,000 (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 March 31, 2011 and 2010.

The significant components of the net deferred tax asset calculated with the estimated effective income tax rate at March 31, 2011 and 2010 were as follows:

	March 31, 2011	March 31, 2010
Deferred tax assets*:		
Net operating loss carry forward	\$ 6,379,000	\$ 4,924,000
Stock based compensation	806,000	515,000
Deferred tax liabilities*:		
Depreciation and amortization	(442,000)	(497,000)
Net deferred income tax asset	6,743,000	4,942,000
Deferred tax asset valuation allowance	(6,743,000)	(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:

	For the years ended March 31,		
	2011	2010	2009
U.S. Federal statutory rate	34.0%	34.0%	34.0%
Average State income tax, net of federal tax effect	3.8	3.8	4.2
Production tax credits	(2.0)	(2.0)	(2.0)
Net effective tax rate	<u>35.8%</u>	<u>35.8%</u>	<u>36.2%</u>

At March 31, 2011, the Company had net income tax operating loss carry forwards of approximately \$17,622,000 (\$13,678,000 in March 31, 2010), which expire in the years 2023 through 2031. The change in the allowance account from March 31, 2010 to March 31, 2011 was \$1,801,000.

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, 2011, 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, 2011, 2010, and 2009, could be subject to agency examinations as of March 31, 2011. No filings are currently under examination. No adjustments have been made to reduce our estimated income tax benefit at fiscal year end. Any valuations relating to these income tax provisions will comply with U.S. generally accepted 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 at the end of the lease term scheduled for November 2012. At March 31, 2011, equipment under capital lease amounted to \$53,450 (\$28,507 accumulated amortization). The schedule of minimum lease payments is as follows:

Years Ending March 31,	Principal	Interest	Totals
2012	\$ 12,736	\$ 1,580	\$ 14,316
2013	14,372	518	14,890
	<u>\$ 27,108</u>	<u>\$ 2,098</u>	<u>\$ 29,206</u>

NOTE 10 – PROMISORY NOTE PAYABLE

On July 7, 2009, the Company financed the purchase of 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. Currently, the Company is in compliance with the note requirements.

NOTE 11 – CONVERTIBLE PROMISSORY NOTE

In September 2010, the Company's wholly owned subsidiary (Oregon USG Holdings LLC) entered into agreements that formulated a strategic partnership with Enbridge (U.S.) Inc. ("Enbridge") to provide up to \$23.8 million in funds for the Neal Hot Springs geothermal project located in Eastern Oregon.

A component of this funding included a \$5 million unsecured convertible promissory note that was signed on September 8, 2010. The note is payable on demand on September 30, 2011, including interest at 4.75% per annum. Upon conversion, the note shall be considered to be fully satisfied, including interest, and shall be treated for all purposes as a contribution to Oregon USG Holding LLC as of the conversion date. The conversion occurs automatically upon the closing of the Department of Energy ("DOE") guaranteed project loan. The Company has the option to pay all accrued interest in cash prior to the conversion date. The loan shall become payable in full at the option of the Enbridge following any of the circumstances that create an "Event of Default." Notable Events of Default include the DOE or relevant governmental authority communicates that it will not or does not intend to guarantee the Project Loan or the Project is unable to obtain a reservoir certificate by an independent reservoir engineer. Repayment of the note is guaranteed by U.S. Geothermal, Inc.

In April 2011, the conditions of the conversion were met. See Note 21 for details.

NOTE 12 – CONSTRUCTION NOTES PAYABLE

Effective August 27, 2010, the Company's wholly owned subsidiary (USG Nevada LLC) signed a construction loan agreement with Benham Constructors LLC ("Benham"). Benham will be the primary contractor in the relocation and replacement of the existing power plant. The new 8.6 net megawatt power plant is expected to cost approximately \$25 million, and is expected to be completed October 2011. Upon completion, the Company will pay the debt in full within 30 days of receipt of the final statement prepared by Benham. Interest will accrue on outstanding balance at 9.5% per annum. When due, the Company expects to obtain funds to repay the loan balance with a long-term project loan. The loan is non-recourse and is secured by the Project's assets. Title of all work and materials shall pass to the Company the later of delivery to the Site or upon payment in full.

NOTE 13 – 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 14 - 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 10, 2011, the Company issued 705,000 shares for the stock compensation plan (restricted shares) approved on September 10, 2010. The shares will be distributed to qualified recipients according to the approved vesting schedule. See note 15 for details.

On March 7, 2011, the Company issued 5,000,000 shares of Common Stock at a price of \$1.00 per share. Each investor received a Common Stock Purchase Warrant exercisable for 50% of number of shares of Common Stock purchased. Each Warrant will entitle the holder to purchase one additional share of Common Stock for \$1.075 per share. The Warrants expire March 3, 2012. The issue included a placement agent fee of 112,000 Common Shares and 56,000 Warrants with the same terms.

During the year ended March 31, 2011, the Company issued 297,180 common shares to employees of the Company upon exercise of stock options. Common shares of 272,180 were issued at a strike price of \$1.00 CDN and 25,000 were issued at \$0.92.

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 year ended March 31, 2010, the Company issued 304,375 common shares to employees and consultants of the Company upon exercise of stock options at 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 March 31, 2009, the Company verified an adjustment of 5 shares required for entitlement shares to be issued for the stock consolidations of Consolidated Mango (1999) and US Cobalt (2003) shares. These shares remain in escrow until the Consolidated Mango and US Cobalt shares are redeemed for U.S. Geothermal Inc. common shares.

During the year ended March 31, 2009, the Company issued 22,134 common shares to an officer of the Company upon exercise of stock options at a strike price of \$0.60 CDN.

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

additional 2,122,500 units at the issue price of the offering, resulting in the issuance of a total of 6,382,500 units for aggregate gross proceeds of approximately \$15 million CDN.

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

NOTE 15 - 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 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 March 31, 2011, the Company can issue stock option grants totaling up to 12,714,296 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 are 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 March 31, 2011, the Company had 6,703,195 options granted and outstanding.

On September 10, 2010, the Company granted 1,300,000 stock options to employees exercisable at a price of \$0.86 until September 10, 2015.

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

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

On August 9, 2008, the Company granted 95,000 stock options to employees exercisable at a price of \$1.58 until August 9, 2013.

On May 19, 2008, the Company granted 1,505,000 stock options to employees and consultants exercisable at a price of \$2.41 until May 19, 2013.

The following table reflects the summary of stock options outstanding at March 31, 2008 and changes during the years ended March 31, 2009, 2010 and 2011:

	Number of shares under options	Weighted Average Exercise Price Per Share	Weighted Average Fair Value	Aggregate Intrinsic Value
Balance outstanding, March 31, 2008	2,899,878	\$ 1.22	\$ 1.03	\$ 2,997,808
Forfeited	(238,494)	0.98	0.63	(151,013)
Exercised	(22,134)	0.57	0.28	(6,093)
Granted	1,600,000	2.19	0.87	1,394,017
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	(29,500)	2.00	0.66	(19,597)
Exercised	(297,180)	0.99	0.99	(294,066)
Granted	1,300,000	0.86	0.58	752,206
Balance outstanding, March 31, 2011	6,703,195	\$ 1.38	\$ 0.86	\$ 5,734,572

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:

	Year Ended March 31,		
	2011	2010	2009
Dividend yield	0	0	0
Expected volatility	89-92%	71-93%	71-82%
Risk free interest rate	0.26-0.78%	0.46-1.32%	1.74-2.23%
Expected life (years)	3.19	3.17	3.25

Changes in the subjective input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

The following table summarizes information about the stock options outstanding at March 31, 2011:

OPTIONS OUTSTANDING				
EXERCISE PRICE	NUMBER OF OPTIONS	REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF OPTIONS EXERCISABLE	INTRINSIC VALUE
\$ 1.00 CDN	1,170,820	0.03	1,170,820	\$ 1,188,983
1.15 CDN	78,750	0.33	78,750	86,626
1.40 CDN	157,500	0.81	157,500	139,271
2.41	652,500	1.31	652,500	460,975
2.22	1,465,000	2.13	1,465,000	1,786,417
1.78	95,000	2.49	95,000	81,172
0.92	1,715,625	3.15	1,715,625	1,212,487
1.58	68,000	3.48	68,000	26,435
0.86	1,300,000	4.45	650,000	376,103
\$ 1.38	6,703,195	2.36	6,053,195	\$ 5,358,469

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
2.41	660,000	2.33	660,000	466,274
2.22	1,475,000	3.12	1,475,000	1,798,611
1.78	95,000	3.48	95,000	81,172
0.92	1,740,625	4.15	867,125	612,825
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, 2008 and changes during the fiscal years ended March 31, 2009, 2010 and 2011 are presented as follows:

	Number of Options	Weighted Average Grant Date Fair Value Per Share	Weighted Average Grant Date Fair Value
Nonvested, March 31, 2008	419,375	\$ 1.08	\$ 1.43
Granted	1,600,000	2.19	1.22
Vested	(980,881)	2.25	1.26
Forfeited	(238,494)	0.98	0.63
Nonvested, March 31, 2009	800,000	1.08	1.43
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	1,300,000	0.86	0.58
Vested	(1,557,500)	0.90	0.66
Forfeited	(6,000)	1.58	0.39
Nonvested, March 31, 2011	650,000	\$ 0.86	\$ 0.58

As of March 31, 2011, there was \$341,567 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 March 31, 2011 and 2010 was \$805,193 and \$1,468,169; respectively.

Stock Compensation Plan (Restricted Shares)

On September 10, 2010, the Company granted officers, directors and select employees 705,000 common shares that will be distributed in three six-month vesting periods. The recipients meet the vesting requirements by maintaining employment and good standing with the Company through the vesting periods. After vesting, there are no restrictions on shares. On March 10, 2011, the 705,000 common shares were issued to the recipients and held by the Company. All of these shares were considered to be issued and outstanding. On March 11, 2011, 235,000 common shares vested valued at \$0.99 per share, and the shares were released to the qualified recipients. The remaining vesting schedule is as follows:

<u>Remaining Vesting Dates</u>	<u>Number of Shares Vesting</u>
September 10, 2011	235,000
March 11, 2012	235,000
	<u>470,000</u>

Stock Purchase Warrants

At March 31, 2011, 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	\$ 1.750
March 4, 2012	-	-	2,556,000	1.075
September 16, 2015	246,285	1.25	4,104,757	1.250

NOTE 16 – 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 March 31, 2011 at fair value on a recurring basis:

	Total	Level 1	Level 2	Level 3
Assets:				
Money market accounts	\$ 7,610,027	\$ 7,610,027	\$ -	\$ -
Investment in equity securities	178,486	-	178,486	-
	<u>\$ 7,788,513</u>	<u>\$ 7,610,027</u>	<u>\$ 178,486</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.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended March 31, 2010 and 2009:

Investment in equity securities:	
Balance at March 31, 2009	\$ 150,169
Purchases	-
Realized gains/losses	-
Foreign exchange loss	11,156
Unrealized gain included in other comprehensive income	92,247
Transfer out of classification	(253,572)
Balance at March 31, 2010	<u>\$ -</u>

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

NOTE 17 - RELATED PARTY TRANSACTIONS

At March 31, 2011 and 2010 the amounts of \$2,338 and \$1,897, respectively, are payable to directors and officers of the Company for routine expense reimbursement. These amounts are unsecured and due on demand.

The Company's subsidiary Raft River Energy I, LLC ("RREI") owed the Company \$282,257 and \$335,684 at March 31, 2011 and 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:

	Years Ended March 31,		
	2011	2010	2009
Management fees	\$ 250,000	\$ 250,000	\$ 250,000
Lease and royalties	196,893	209,544	97,098
	<u>\$ 446,893</u>	<u>\$ 459,544</u>	<u>\$ 347,098</u>

The Company's equity investment in RREI is adjusted monthly for its 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 fees in the amounts of \$67,500, \$60,000 and \$60,000 for the years ended March 31, 2011, 2010 and 2009; respectively.

NOTE 18 - 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 March 31, 2011	Canadian GAAP March 31, 2011	U.S. GAAP March 31, 2010	Canadian GAAP March 31, 2010
Plant, Property and Equipment	\$ 40,295,117	\$ 40,735,728	\$ 16,550,006	\$ 16,990,617
Intangible Assets	16,957,708	16,957,708	16,642,515	16,642,515
Total Assets	85,322,968	85,763,579	65,727,861	66,168,472
Stockholders' Equity	65,169,562	65,610,173	62,528,591	62,969,202
Total Liabilities and Stockholders' Equity	\$ 85,322,968	\$ 85,763,579	\$ 65,727,861	\$ 66,168,472

Consolidated Statements of Operations and Comprehensive Loss	U.S. GAAP Year Ended March 31, 2011	Canadian GAAP Year Ended March 31, 2011	U.S. GAAP Year ended March 31, 2010	Canadian GAAP Year ended March 31, 2010
Loss from Operations	\$ (4,039,351)	\$ (4,039,351)	\$ (5,907,481)	\$ (5,907,481)
Net Loss Attributable to U.S. Geothermal Inc.	\$ (3,954,416)	\$ (3,954,416)	\$ (5,763,138)	\$ (5,763,138)

The Company's consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. Effective our fiscal year beginning April 1, 2011, the Company will provide an explanation of differences between U.S. GAAP and International Financial Reporting Standards ("IFRS") in a footnote to the financial statements.

NOTE 19 - 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 years ended March 31, 2011, 2010 and 2009, totaling \$153,918, \$177,109 and \$81,392; 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. The Company believes that it is in compliance with all of the lease terms.

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 signed in a one year lease contract January 2011 for general office space for the executive office located in Boise, Idaho. The contract includes two one year renewal options for the Company. The lease payments are due in monthly installments of \$6,160. The Company incurred total office lease expenses under the current contract and the prior contract for years ended March 31, 2011, 2010 and 2009, totaling \$72,306, \$70,200 and \$67,987; respectively.

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

<u>Year Ending March 31,</u>	<u>Amount</u>
2012	\$ 167,167
2013	77,627
2014	67,611
2015	58,652
2016	55,352
Thereafter	21,946

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.

In December of 2009, the Company's subsidiary (USG Oregon LLC), signed a power purchase agreement with Idaho Power Company for the sale of power generated by the Neal Hot Springs, Oregon project. The agreement has a term of 25 years and provides for the purchase of power up to 25 megawatts (22 megawatt planned output level). Beginning 2012, the flat energy price is \$96 per megawatt hour. The price escalates annually by 6 percent in the initial years and by 1.33 percent during the latter years of the agreement. The approximate 25-year levelized price is \$117.65 per megawatt hour.

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 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 20 – JOINT VENTURES/NON-CONTROLLING INTEREST

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.

Oregon USG Holdings LLC

In September 2010, Oregon USG Holdings LLC (wholly owned by U.S. Geothermal Inc.) signed an LLC Operating Agreement with Enbridge Inc. for the right to participate in the Company’s project in the Neal Hot Springs project located in Malheur County, Oregon. The agreement provided for the issuance of a \$5 million promissory note, with a conversion option, from Enbridge to Oregon USG Holdings LLC to provide funding for the completion of the drilling and testing activities (see Note 11 for details). Upon completion of the independent reservoir engineer’s report at Neal Hot Springs, Enbridge’s promissory note shall be converted into a direct equity ownership in Oregon USG Holdings LLC. Enbridge will earn a 20% direct ownership from conversion of \$5 million convertible note and making an additional payment of \$13.8 million to Oregon USG Holdings LLC. In the event of cost overruns for the project and at the Company’s election, an additional payment obligation of up to \$5 million may be contributed by Enbridge that would increase their direct ownership by 1.5 percentage points for each \$1 million contributed. Added to their base 20% ownership, additional payments could increase Enbridge’s ownership to a maximum of 27.5%.

During the year ended March 31, 2011, Enbridge contributed \$1,000 for the right to acquire a 20% ownership interest in Oregon USG Holdings LLC subject to completing the additional payment obligations and conversion of the promissory note.

See description of the conversion event that occurred subsequent to the fiscal year end in Note 21.

NOTE 21 – SUBSEQUENT EVENT

The Company has evaluated events and transactions that have occurred after the balance sheet date through June 9, 2011, which is considered to be the issuance date. The following event was identified for disclosure:

Conversion of Loan to Equity and Capital Contribution

In April 2011, the DOE guaranteed project loan was closed which triggered the terms of the conversion agreement. The unsecured convertible promissory note in the amount of \$5,000,000 was converted to an equity interest in Oregon USG Holding LLC. With the note conversion and the additional capital contribution of \$13.8 million, the partner (Enbridge) received a 20% ownership interest in Oregon USG Holdings LLC and has the right to acquire up to a maximum of 27.5%. Oregon USG Holdings LLC has full ownership of USG Oregon LLC.

San Emidio Nevada Project Purchase Agreement

On June 1, 2011, the Company announced the signing of a 25 year power purchase agreement between its wholly owned subsidiary (USG Nevada LLC) and NV Energy for the purchase of an annual average of up to 19.9 net megawatts of energy produced from the San Emidio Geothermal Project located in Washoe County, Nevada. This agreement is still subject to approval by the PUC.

Repairs Agreement for Raft River Energy I LLC

On May 17, 2011, Raft River I Holdings, LLC consented to a repair plan for both under performing wells utilized by Raft River Energy I, LLC (wells RRG-2 and RRG-7). A Repair Services Agreement was executed between U.S Geothermal Services, LLC (“USG Services”) and Raft River Energy I LLC, whereby USG Services will provide up to \$1.65 million in funding and manage the well repairs. The cost of the repairs will be repaid preferentially from project cash flow at a rate of 90% of increased cash created by the repairs. A management fee of 12.75% of the actual repair cost incurred will be paid to USG Services. The outstanding balance of the repair cost will also earn USG Services interest income at the rate of 12.0 % per annum.