

**U.S. GEOTHERMAL INC.**

**(A Development Stage Company)**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**U.S. GEOTHERMAL INC.**  
**(A Development Stage Company)**  
**CONSOLIDATED BALANCE SHEETS**  
(Stated in U.S. Dollars)

	Unaudited	
	June 30, 2006	March 31, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 17,172,400	\$ 196,499
Restricted cash	-	19,961,890
Refundable tax credit	11,688	4,703
Prepaid expenses	31,834	6,726
Total Current Assets	<u>17,215,922</u>	20,169,818
<b>Property, Plant and Equipment</b>	<u>5,009,903</u>	1,726,115
Total Assets	<u>\$ 22,225,825</u>	<u>\$ 21,895,933</u>

**LIABILITIES**

**Current**

Accounts payable and accrued liabilities	\$ 504,136	\$ 270,831
Related party accounts payable	19,106	10,083
Total Current Liabilities	<u>523,242</u>	280,914

**STOCKHOLDERS' EQUITY**

**Capital Stock**

Authorized:

100,000,000 common shares with a \$0.001 par value

Issued and Outstanding:

43,303,844 shares at June 30, 2006 and 43,304 18,264

18,263,844 shares at March 31, 2006

<b>Capital stock issuable</b>	-	20,134,260
<b>Additional paid-in capital</b>	25,907,470	5,338,200
<b>Stock purchase warrants</b>	1,324,038	1,324,038
<b>Accumulated other comprehensive income</b>	32,792	32,792
<b>Accumulated deficit before development stage</b>	(1,037,422)	(1,037,422)
<b>Accumulated deficit during development stage</b>	(4,567,599)	(4,195,113)
Total Stockholders' Equity	<u>21,702,583</u>	21,615,019
Total Liabilities and Stockholders' Equity	<u>\$ 22,225,825</u>	<u>\$ 21,895,933</u>

Approved on behalf of the Board:

"Doug Glaspey"

Director

"Paul Larkin"

Director

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

**U.S. GEOTHERMAL INC.**  
(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Stated in U.S. Dollars)

	<b>Unaudited THREE MONTHS ENDED JUNE 30, 2006</b>	<b>Unaudited 2005</b>	<b>Unaudited CUMULATIVE PERIOD FROM INCORPORATION FEBRUARY 26, 2002 TO JUNE 30, 2006</b>
<b>Revenue</b>	\$ -	\$ -	\$ -
<b>Operating Expenses</b>			
Consulting fees	65,455	23,331	973,920
Corporate administration and development	27,305	17,408	353,376
Exploration expenditures	-	26,318	440,611
Professional fees	213,068	230,121	1,177,059
Management fees	12,328	11,798	301,061
Salaries and wages	538,575	142,900	1,386,261
Travel and promotion	105,046	80,334	579,564
<b>Loss from Operations</b>	<b>(961,777)</b>	<b>(532,210)</b>	<b>(5,211,852)</b>
<b>Other Income (Expense)</b>			
Foreign exchange loss	410,329	95,686	421,598
Interest Income	178,962	19,772	222,655
<b>Loss Before Income Taxes</b>	<b>(372,486)</b>	<b>(416,752)</b>	<b>(4,567,599)</b>
<b>Income Taxes</b>	-	-	-
<b>Net Loss</b>	<b>\$ (372,486)</b>	<b>\$ (416,752)</b>	<b>\$ (4,567,599)</b>
<b>Basic And Diluted Net Loss Per Share</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>	
<b>Weighted Average Number Of Shares Outstanding for Basic and Diluted Calculations</b>	<b>43,283,844</b>	<b>17,347,253</b>	
<b>Other Comprehensive Income (Loss)</b>			
Net loss for the period	\$ (372,486)	\$ (416,752)	
Foreign currency translation adjustment	-	(132,469)	
<b>Total Comprehensive Loss</b>	<b>\$ (372,486)</b>	<b>\$ (549,221)</b>	

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

**U.S. GEOTHERMAL INC.**  
(A Development Stage Company)

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

	<b>Unaudited THREE MONTHS JUNE 30 2006</b>	<b>Unaudited 2005</b>	<b>UNAUDITED CUMULATIVE PERIOD FROM INCORPORATION FEBRUARY 26, 2002 TO JUNE 30, 2006</b>
<b>Operating Activities</b>			
Net loss for the period	\$ (372,486)	\$ (416,752)	\$ (4,567,599)
Add: Non-cash items:			
Depreciation	1,458	141	4,783
Shares issued for other than cash	-	-	49,600
Stock based compensation	438,659	45,195	1,211,059
Change in non-cash working capital items:			
Accounts payable and accrued liabilities	242,328	(75,500)	277,098
Prepaid expenses	(25,108)	(9,798)	(31,834)
Refundable tax credit and grant receivable	(6,985)	(842)	(5,870)
Total Cash Provided (Used) by Operating Activities	277,866	(455,872)	(3,062,763)
<b>Investing Activities</b>			
Purchases of property, plant and equipment	(3,285,246)	(1,000)	(4,937,335)
Cash acquired on business combination	-	-	5,798
Total Cash Provided (Used) by Investing Activities	(3,285,246)	(1,000)	(4,931,537)
<b>Financing Activities</b>			
Issuance of share capital, net of share issue cost	19,983,281	13,008	25,133,908
Total Cash Provided by Financing Activities	19,983,281	13,008	25,133,908
<b>Foreign Exchange Effect On Cash And Cash Equivalents</b>	-	(132,469)	32,792
<b>Increase In Cash And Cash Equivalents</b>	16,975,901	(576,333)	17,172,400
<b>Cash And Cash Equivalents, Beginning Of Period</b>	196,499	1,957,075	-
<b>Cash And Cash Equivalents, End Of Period</b>	\$ 17,172,400	\$ 1,380,742	\$ 17,172,400

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

**Supplemental Disclosure**

Taxes paid	\$	-	\$	-	\$	-
Interest paid		-		-		-
Non-cash investing and financing activities						
Construction in Progress		-	(1,000)			(1,000)
Shares issued for exercise of options		-	13,008			13,008
Shares issued for settlement of debt		-	-			173,639
Shares issued for professional services		-	-			49,600
Shares issued for geothermal property		-	-			77,350
Warrants issued for share issue cost		-	-			158,778

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**U.S. GEOTHERMAL INC.**  
(A Development Stage Company)

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**FROM INCEPTION, FEBRUARY 26, 2002, TO JUNE 30, 2006**

(Stated in U.S. Dollars)

	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	CAPITAL STOCK ISSUABLE	STOCK PURCHASE WARRANTS	ACCUM. OTHER INCOME	ACCUM. DEFICIT	TOTAL
Shares issued for cash at \$0.015 per share – February 26, 2002	2,600,000	\$ 2,600	\$ 37,400	\$ -	\$ -	\$ -	\$ -	\$ 40,000
Shares and warrants issued for Geothermal property at \$0.009 – March 5, 2002	1,895,000	1,895	15,105	-	-	-	-	17,000
Balance, March 31, 2002 – U.S. Geothermal Inc. – Idaho	4,495,000	4,495	52,505	-	-	-	-	57,000
Shares issued for cash at \$0.25 per share – May 28, 2002	395,000	395	98,355	-	-	-	-	98,750
Shares issued for services at \$0.25 per share – May 28, 2002	5,000	5	1,245	-	-	-	-	1,250
Shares issued for cash at \$0.30 per share – November 1, 2002	1,023,667	1,024	306,076	-	-	-	-	307,100
Shares issued for services at \$0.30 per share – November 1, 2002	10,000	10	2,990	-	-	-	-	3,000
Shares issued for services at \$0.30 per share – February 14, 2003	151,170	151	45,199	-	-	-	-	45,350
Net loss for the period	-	-	-	-	-	-	(164,909)	(164,909)
Balance carried forward, March 31, 2003 – U.S. Geothermal Inc. – Idaho	6,079,837	\$ 6,080	\$ 506,370	\$ -	\$ -	\$ -	\$ (164,909)	\$ 347,541

**U.S. GEOTHERMAL INC.**  
(A Development Stage Company)

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Continued)**

**FROM INCEPTION, FEBRUARY 26, 2002, TO JUNE 30, 2006**

(Stated in U.S. Dollars)

	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	CAPITAL STOCK ISSUABLE	STOCK PURCHASE WARRANTS	ACCUM. OTHER INCOME	ACCUM. DEFICIT	TOTAL
Balance carried forward, March 31, 2003 – U.S. Geothermal Inc. – Idaho	6,079,837	\$ 6,080	\$ 506,370	\$ -	\$ -	\$ -	\$ (164,909)	\$ 347,541
Consolidation adjustment to the number of shares issued and outstanding as a result of the reverse take-over transaction- U.S. Geothermal Inc.- Idaho December 19, 2003	(6,079,837)	\$ (6,080)	\$ 6,080	\$ -	\$ -	\$ -	\$ -	\$ -
Legal parent company shares issued and outstanding at time of reverse take-over- U.S. Cobalt Inc.- December 19, 2003	2,274,616	2,275	(2,275)	-	-	-	-	-
Shares issued for acquisition of U.S. Geothermal Inc.- Idaho	6,939,992	6,940	(6,940)	-	-	-	(408,166)	(408,166)
Warrants issued for acquisition of U.S. Geothermal Inc.- Idaho	-	-	-	-	629,256	-	(629,256)	-
Shares and warrants issued for cash at a price of \$0.45 per share in a private placement, net of share issue costs of \$75,122 paid in cash and \$25,437 paid by issuance of 83,333 agent's warrants- December 19, 2003	3,322,221	3,322	959,230	-	457,326	-	-	1,419,878
Shares and warrants issued for conversion of notes at \$0.45 per share – February 20, 2004	385,864	386	123,090	-	50,162	-	-	173,638
Stock options granted	-	-	296,081	-	-	-	-	296,081
Foreign currency translation gain	-	-	-	-	-	35,792	-	35,792
Net loss for the year	-	-	-	-	-	-	(676,398)	(676,398)
Balance, March 31, 2004	12,922,693	\$ 12,923	\$ 1,881,636	\$ -	\$ 1,136,744	\$ 35,792	\$ (1,878,729)	\$ 1,188,366

**U.S. GEOTHERMAL INC.**  
(A Development Stage Company)

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Continued)**

**FROM INCEPTION, FEBRUARY 26, 2002, TO JUNE 30, 2006**

(Stated in U.S. Dollars)

	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	CAPITAL STOCK ISSUABLE	STOCK PURCHASE WARRANTS	ACCUM. OTHER INCOME	ACCUM. DEFICIT	TOTAL
Balance, March 31, 2004	12,922,693	\$ 12,923	\$ 1,881,636	\$ -	\$ 1,136,744	\$ 35,792	\$ (1,878,729)	1,188,366
							\$	
Shares and warrants issued for cash at a price of \$0.66 in a private placement, net of share issue costs of \$225,131 paid in cash and \$133,341 paid by the issuance of 280,000 agent's warrants- September 17, 2004	4,000,001	4,000	1,103,082	-	1,324,038	-	-	2,431,120
Shares issued for property at a price of \$0.60- February 22, 2005	100,000	100	60,251	-	-	-	-	60,351
Shares issued for stock options exercised	308,735	309	145,133	-	-	-	-	145,442
Stock options granted	-	-	295,540	-	-	-	-	295,540
Foreign currency translation gain	-	-	-	-	-	129,470	-	129,470
Net loss for the year	-	-	-	-	-	-	(1,830,421)	(1,830,421)
Balance, March 31, 2005	17,331,429	17,332	3,485,642	-	2,460,782	165,262	(3,709,150)	2,419,868
Stock options granted	-	-	180,780	-	-	-	-	180,780
Expiration of stock purchase warrants	-	-	1,061,145	-	(1,061,145)	-	-	-
Shares issued for stock options and warrants exercised	932,415	932	610,633	-	(75,599)	-	-	535,966
Foreign currency translation loss	-	-	-	-	-	(132,470)	-	(132,470)
Capital stock issuable as result of a private placement to be closed April 3, 2006	-	-	-	20,134,260	-	-	-	20,134,260
Net loss for the year	-	-	-	-	-	-	(1,523,385)	(1,523,385)
Balance, March 31, 2006	18,263,844	18,264	5,338,200	20,134,260	1,324,038	32,792	(5,232,535)	21,615,019
Stock options granted			438,659					438,659
Shares issued for stock options exercised	40,000	40	21,351					21,391
Capital stock issued as result of a private placement closed April 3, 2006	25,000,000	25,000	20,109,260	(20,134,260)				0
Net loss for the period							(372,486)	(372,486)
Balance, June 30, 2006	43,303,844	\$ 43,304	\$ 25,907,470	\$ 0	\$ 1,324,038	\$ 32,792	\$ (5,605,021)	\$ 21,702,583

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

**U.S. GEOTHERMAL INC.**  
**(A Development Stage Company)**  
**(Unaudited- Prepared by Management)**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2006**  
**(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, acquired control of GTH. (Note 3) 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 has been in the development stage since its formation and has not yet realized any revenues from its planned operations. GEO - Idaho operates for the purpose of acquiring geothermal properties and has entered into an agreement with Vulcan Power Company (“Vulcan”) of Bend, Oregon, U.S.A., pursuant to which it has agreed to acquire up to a 100% interest in the Raft River Geothermal Property located in Cassia County, Idaho, U.S.A. (Note 4).

**Basis of Presentation**

The interim financial data are unaudited; however, in the opinion of management, the interim data include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The financial statements included herein have been prepared by U.S. Geothermal, Inc. pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although U.S. Geothermal, Inc. believes that the disclosures included herein are adequate to make the information presented not misleading. Operating results for the periods presented are not necessarily indicative of future results. These financial statements should be read in conjunction with the financial statements and notes to financial statements included in the Company’s Annual Report on Form 10-KSB for the year ended March 31, 2006.

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. 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);
- iv) Raft River Energy I LLC (incorporated in the State of Delaware);
- v) US Geothermal Services, LLC (incorporated in the State of Delaware).

All inter-group transactions are eliminated on consolidation.

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions and could have a material effect on the reported amounts of the Company's financial position and results of operations.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

### **Recent Accounting Pronouncements**

In March 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140." This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations: a transfer of the servicer's financial assets that meets the requirements for sale accounting; a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities; or an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. The statement also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable and permits an entity to choose either the amortization or fair value method for subsequent measurement of each class of servicing assets and liabilities. The statement further permits, at its initial adoption, a one-time reclassification of available for sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available for sale securities under Statement 115, provided that the available for sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management believes the adoption of this statement will have no impact on the Company's financial condition or results of operations.

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections," (hereinafter "SFAS No. 154") which replaces Accounting Principles Board Opinion No. 20, accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements – An Amendment of APB Opinion No. 28". SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principle and error corrections.

SFAS No. 154 requires that changes in accounting principle be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. Management does not expect SFAS No. 154 to have a material impact on the Company's financial position, results of operations, or cash flows.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and short term deposits with maturities of no more than ninety days when acquired.

### **Going Concern**

Based on the Company's projected spending over the next 12 months and the \$20,134,260 cash received from the private placement completed April 3, 2006, the Company's auditors have removed the going concern qualification from the Company's financial statements. Management believes that sufficient funding will be available to meet its business objectives, including anticipated cash needs for working capital, and financing for construction of the phase one power plant. As shown in the accompanying consolidated financial statements, the Company has incurred an accumulated deficit of \$5,605,021 for the period from February 26, 2002 (inception) to March 31, 2006, and has no revenue from operations.

### **Property, Plant and Equipment**

Costs of acquisition 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.

The Company expenses all costs related to the development of geothermal reserves prior to the establishment of proven and profitable reserves. Other equipment is recorded at cost. Depreciation of other equipment is calculated on a straight-line basis at an annual rate of 30%.

### **Income Taxes**

The Company accounts for income taxes pursuant to SFAS No. 109- "Accounting for Income Taxes". Under SFAS No. 109, the Company is required to compute tax asset benefits for net operating losses carried forward. Potential benefits of net operating losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

The significant components of the deferred tax asset at June 30, 2006 and June 30, 2005 were as follows:

		June 30, 2006		March 31, 2006
		<u>          </u>		<u>          </u>
Net operating loss carryforward	\$	5,567,000	\$	5,196,000
Deferred tax asset:	\$	1,893,000	\$	1,767,000
Less valuation allowance for tax asset		<u>-1,893,000</u>		<u>-1,767,000</u>
Net deferred tax asset	\$	<u>          -</u>	\$	<u>          -</u>

At June 30, 2006 and March 31, 2006, the Company has net operating loss carryforwards of approximately \$5,567,000 and \$5,196,000 respectively, which expire in the years 2023 through 2026. The change in the allowance account from March 31, 2006 to June 30, 2006 was \$126,000.

**NOTE 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, of which 3,149,846 common shares and 1,500,570 share purchase warrants were held in escrow as at June 30, 2005 (March 31, 2005, 4,243,325 common shares and 1,946,937 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 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.

The Company has determined that the share purchase warrants issued as part of the transaction have a fair value of \$629,256 as determined by using the Black-Scholes pricing model with the assumptions as stated in Note 6. The amount is considered to be additional consideration given to the former GEO-Idaho shareholders and, as such, has been allocated, along with the net liabilities assumed of GTH, to deficit.

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>

The net liabilities assumed were charged to accumulated deficit.

**NOTE 4- PROPERTY, PLANT AND EQUIPMENT**

GEO - Idaho entered into an agreement, as amended December 3, 2002, with the previous owner to purchase up to a 100% interest in the Raft River Geothermal Property (“the Property”) located in Cassia County, Idaho, in exchange for 1,895,000 shares (the “old shares”), 1,612,000 warrants (the “old warrants”) of GEO – Idaho, and up to \$600,000 in cash. A condition to acquiring 100% of the Property was the completion by GEO - Idaho of at least a \$200,000 work program on the Property. The old shares and old warrants were exchanged subsequent to December 31, 2002 (as part of the reverse take-over described in Notes 3 and 5) for shares and warrants of the Company.

As of March 31, 2006, the Company has acquired a 100% interest in the Property by making cash payments totalling \$250,000 in 2003, \$225,000 in 2004 and \$125,000 in 2005. The Company has also completed the requisite work program. In addition, the Company has paid \$57,728 to acquire two purchase options on 1,083 acres of surface and water rights, and paid \$949,036 to initiate construction of the Raft River Project.

During the quarter ended June 30, 2006, the Company acquired 123 acres of surface and energy rights in exchange for a cash payment of \$208,413 and acquired 631 acre feet per annum in water rights for \$15,000. The Company also acquired access to 5,409 acres of surface, mineral and geothermal rights through a lease payment of \$15,000, and paid \$2,976,964 in construction costs for the Phase 1 Raft River project. An additional \$32,415 was paid to acquire furniture and computer equipment for the corporate and Raft River offices.

Property, plant and equipment consisted of the following at the dates shown:

	<b>June 30, 2006</b>	March 31, 2006
Geothermal property (land and equipment)		
Balance, beginning of period	\$ 775,079	\$ 592,351
Shares issued	-	-
Cash payments	<u>275,867</u>	182,728
Balance, end of period	<b>1,050,946</b>	775,079
Construction in Process- Raft River Project		
Balance, beginning of period	<b>949,036</b>	-
Power Plant One	<b>2,148,807</b>	565,459
Transmission Lines and Substation	<b>13,544</b>	139,193
Pipelines	<b>397,909</b>	78,478
Well Drilling	<u>416,704</u>	165,906
Balance, end of period	<b>3,926,000</b>	949,036
Other equipment		
Balance, beginning of period	<b>5,325</b>	5,325
Acquisitions	<u>32,415</u>	-
Balance, end of period	<b>37,740</b>	5,325
Less: Accumulated depreciation	<u>(4,783)</u>	(3,325)
Net balance, end of period	<b>32,957</b>	2,000
	<b><u>\$ 5,009,903</u></b>	<b><u>\$1,726,115</u></b>

#### **NOTE 5- CAPITAL STOCK**

The Company is authorized to issue 100,000,000 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 May 23, 2006, the Company issued 40,000 common shares upon the exercise of 40,000 options at an exercise price of \$0.60 CDN (\$0.53 U.S. as of May 23, 2006).

On April 3, 2006, the Company completed a private placement of 25,000,000 common shares at a price of \$1.00 CDN (\$0.86 U.S. as of April 3, 2006). Proceeds, net of financing fees, totaled \$20,134,260. Of the net proceeds, \$172,370 had been received in the Company's bank accounts prior to year end. Since the subscription forms reflected a March 30, 2006 date, and the remainder of the cash was on deposit with Dundee Securities Corporation, the private placement was recorded

as “Restricted Cash” and as “Capital Stock Issuable” in the financial statements at March 31, 2006. Upon the issuance of the common shares on April 3, 2006, all cash restrictions were lifted.

On March 13, 2006, the Company issued 15,000 common shares upon the exercise of 15,000 options at an exercise price of \$0.60 CDN (\$0.51 U.S. as of March 13, 2006).

On February 17, 2006, the Company issued 192,934 common shares upon the exercise of 192,934 stock purchase warrants at an exercise price of \$0.75 U.S.

On February 9, 2006, the Company issued 25,000 common shares upon the exercise of 25,000 options at an exercise price of \$0.60 CDN (\$0.51 as of February 9, 2006).

On February 6, 2006, the Company issued 120,000 common shares as a signing bonus as part of an employment agreement at a deemed price of \$0.72 CDN (\$0.61 U.S. as of February 6, 2006).

On January 9, 2006, the Company issued 138,370 common shares upon the exercise of 138,370 options at an exercise price of \$0.60 CDN (\$0.51 U.S. as of January 9, 2006).

On January 3, 2006, the Company issued 200,000 common shares upon the exercise of 200,000 options at an exercise price of \$0.60 CDN (\$0.51 U.S. as of January 3, 2006).

On December 28, 2005, the Company issued 183,333 common shares upon the exercise of 100,000 options at an exercise price of \$0.60 CDN (\$0.51 U.S. as of December 28, 2005) and 83,333 purchase warrants at an exercise price of \$0.45 U.S.

On July 22, 2005, the Company issued 40,000 common shares upon the exercise of 40,000 options at an exercise price of \$0.60 CDN (\$0.51 U.S. as of July 22, 2005).

On April 11, 2005, the Company issued 17,778 common shares upon the exercise of 17,778 options at an exercise price of \$0.90 CDN (\$0.73 U.S. as of April 11, 2005).

### Escrow Shares and Warrants

The following common shares and share purchase warrants are in escrow at the dates shown:

	<u>June 30,</u> <u>2006</u>	<u>March 31,</u> <u>2006</u>
Common shares	<b>1,057,689</b>	2,150,309
Share purchase warrants	<b>0</b>	0

The escrow shares and warrants are or were held in escrow pursuant to standard requirements of the TSX Venture Exchange, which required that escrow conditions be placed upon the shares and share purchase warrants issued in conjunction with the acquisition of GEO - Idaho (Note 3) and the concurrently completed private placement (Note 5). Shares are released from escrow at six month intervals, with the last release from escrow scheduled for December 19, 2006. All stock purchase warrants previously held in escrow expired as of December 31, 2005, without exercise.

## NOTE 6- STOCK BASED COMPENSATION

The Company's stock option plan provides for the grant of incentive stock options for up to 3,469,840 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. Since the plan has been administered by our Vancouver office and Pacific Corporate Trust Company, the Company has issued stock options with an exercise price stated in Canadian dollars per share.

During the quarter ended June 30, 2006, the Company granted 1,763,000 stock options to consultants, employees, directors and officers exercisable at prices ranging from \$0.85 to \$1.00 CDN (\$0.77 to \$0.90 USD as at June 30, 2006).

During the quarter ended June 30, 2005, the Company granted 50,000 stock options to a consultant exercisable at a price of \$0.72 CDN (\$0.58 USD as at June 30, 2005) until April 19, 2010.

During the year ended March 31, 2005, the Company granted 560,000 stock options to consultants, directors and officers exercisable at prices ranging from \$0.72 to \$0.90 CDN (\$0.58 to \$0.72 USD as at June 30, 2005).

During the year ended March 31, 2004, the Company granted 1,745,000 stock options to consultants, directors and officers exercisable at a price of \$0.60 CDN (\$0.48 USD as at June 30, 2005) until January 3, 2009.

Compensation expense related to stock options granted is recorded at their fair value as calculated by the Black-Scholes option pricing model. Compensation expense of \$57,209 was included in consulting fees and \$381,450 was included in salaries and wages for the quarter ended June 30, 2006 (March 31, 2006 - \$180,780).

The changes in stock options are as follows:

	<u>NUMBER</u>	<u>WEIGHTED AVERAGE EXERCISE PRICE</u>
Balance outstanding, March 31, 2003	-	\$ -
Granted	1,745,000	0.60 CDN
Balance outstanding, March 31, 2004	1,745,000	\$ 0.60 CDN
Granted	470,000	\$ 0.72 CDN
Granted	90,000	0.90 CDN
Cancelled	(240,000)	0.60 CDN
Exercised	(308,735)	0.60 CDN
Balance outstanding March 31, 2005	1,756,265	\$ 0.65 CDN
Cancelled	(182,267)	0.60 CDN

Exercised	(518,370)	0.60 CDN
Granted	50,000	0.72 CDN
Exercised	(17,778)	0.90 CDN
Cancelled	(22,222)	0.90 CDN
	<hr/>	
Balance outstanding March 31, 2006	1,065,628	0.67 CDN
Granted	1,763,000	0.88 CDN
Exercised	(40,000)	0.60 CDN
	<hr/>	
Balance outstanding June 30, 2006	<u>2,788,628</u>	<u>\$ 0.81 CDN</u>

The following table summarizes information about the stock options outstanding at June 30, 2006:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE
EXERCISE PRICE	NUMBER OF SHARES	REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SHARES
\$ 0.60CDN	455,628	3.25	455,628
0.72CDN	520,000	4.17	495,000
0.85 CDN	1,388,000	4.75	347,000
0.90CDN	50,000	4.17	50,000
1.00 CDN	375,000	4.75	93,750
	<hr/>		
\$ 0.81CDN	2,788,628	4.39	<u>1,441,378</u>

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 weighted average fair value of options granted was \$0.67 per share. The assumptions used to calculate the fair value are as follows:

	2006	2005
Dividend yield	0	0
Expected volatility	97%	116%
Risk free interest rate	4.90%	3.88%
Expected life (years)	3.25	5.00

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.

### Stock Purchase Warrants

As at June 30, 2006, the following share purchase warrants are outstanding:

WARRANTS ISSUED PURSUANT TO	EXERCISABLE INTO NUMBER OF COMMON SHARES	EXERCISE PRICE	EXPIRATION DATE	FAIR VALUE AT ISSUANCE
Private placement	4,000,001	\$1.25 CDN	September 17, 2006	\$1,190,697

Agent's warrants	280,000	\$0.85 CDN	September 17, 2006	\$133,341
	<u>4,280,001</u>			<u>\$1,324,038</u>

On February 17, 2006, stock purchase warrants representing 192,934 common shares at an exercise price of \$0.75 were exercised.

Effective December 19, 2005, stock purchase warrants representing 4,081,327 shares at an exercise price of \$0.75 expired without exercise, while 83,333 stock purchase warrants at an exercise price of \$0.45 were exercised.

The Black-Scholes option pricing model was used to determine the fair value of the warrants, with the following assumptions:

	<u>2006</u>	<u>2005</u>
Dividend yield	0%	0%
Expected volatility	%	150%
Risk free interest rate	%	2.65%
Expected life	24 months	24 months

#### NOTE 7 - RELATED PARTY TRANSACTIONS

As at June 30, 2006 and March 31, 2006, the amounts of \$19,106 and \$10,083, respectively, are payable to directors and officers of the Company. These amounts are unsecured and due on demand.

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

	<u>3 Months</u>	<u>12 Months</u>
	<u>June 30,</u>	<u>March 31,</u>
	<u>2006</u>	<u>2006</u>
Administrative services	\$ 5,184	\$ 19,584
Management fees	4,250	21,500
Consulting fees	6,000	24,960
Legal fees	0	871
Rent	0	13,863
	<u>\$ 15,434</u>	<u>\$ 80,778</u>

#### NOTE 8 - 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 ("GAAP"). The material difference in respect to these financial statements between U.S. 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.) are 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:

<b>Consolidated Balance Sheets</b>	<b>U.S. GAAP June 30, 2006</b>	<b>Canadian GAAP June 30, 2006</b>	<b>U.S. GAAP March 31, 2006</b>	<b>Canadian GAAP March 31, 2006</b>
Plant, Property & Equipment	\$ 5,009,903	\$ 5,450,514	\$ 1,726,115	\$ 2,166,726
Total Assets	22,193,991	22,634,602	21,895,933	22,336,544
Stockholder's Equity	21,670,749	22,111,360	21,615,019	22,055,630
Total Liabilities & Stockholder's Equity	22,193,991	22,634,602	21,895,933	22,336,544
<b>Consolidated Statements of Operations and Comprehensive Loss</b>	<b>U.S. GAAP Three Months ended June 30, 2006</b>	<b>Canadian GAAP Three Months ended June 30, 2006</b>	<b>U.S. GAAP Twelve Months ended March 31, 2006</b>	<b>Canadian GAAP Twelve Months ended March 31, 2006</b>
Exploration Expenditures	\$ 0	\$ 0	\$ 0	\$ 0
Loss from Operations	(993,611)	(993,611)	(1,663,069)	(1,607,755)
Net Loss	(404,320)	(404,320)	(1,523,385)	(1,468,071)

#### **NOTE 9 - COMMITMENTS AND CONTINGENCIES**

The Company has entered into several lease agreements with terms expiring up to December 1, 2034 for geothermal properties adjoining the Raft River Geothermal Property. The leases provide for the following annual payments within the next five fiscal years:

2006	\$ 28,850
2007	\$ 20,100
2008	\$ 20,400
2009	\$ 20,800
2010	\$ 23,800

The Company has signed a 10 MW power purchase agreement with Idaho Power Company for sale of power generated from its planned phase one power plant. Sale of power generated from phase two power plants are currently under discussion. 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 are all contingent upon successful financing and construction of the power plant at Raft River.

On December 5, 2005, the Company signed a contract (the "Ormat EPC Agreement") with Ormat Nevada, Inc. (Ormat) for Ormat to construct a 13 MW geothermal power plant at Raft River, Idaho for a lump sum price of \$20,200,000 (exclusive of taxes). The Company expects the output of the plant will be used to meet power delivery requirements of the Company's agreements with Idaho Power Company. As part of the Ormat EPC Agreement, the Company has established a \$1,000,000 letter of credit with Wells Fargo Bank to collateralize amounts committed by Ormat, but not paid by the Company.

The amount will increase monthly until a maximum letter of credit amount of \$5,050,000 is reached. A \$5,302,500 money market fund is pledged as collateral backing the letter of credit.

The Company leases general office space for an executive office in Boise at an annual cost of \$30,506. The underlying lease is a year-to-year lease that expires on January 31, 2007.

The Company is committed to issue 42,741 common shares as additional compensation for hours worked under an employment agreement with an officer of the Company, subject to approval of the TSX Venture Exchange.