

Consolidated Financial Statements
(Expressed in Canadian dollars)

WESTERN GEOPower CORP.

Years ended December 31, 2006 and 2005



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Western GeoPower Corp. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

March 23, 2007

WESTERN GEOPower CORP.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2006 and 2005

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,325,698	\$ 107,417
Amounts receivable (note 9(b)(ii))	36,180	6,035,513
Prepaid expenses and deposits	147,583	96,230
	<u>1,509,461</u>	<u>6,239,160</u>
Equipment (note 3)	187,906	240,389
Geothermal properties (note 4)	32,030,012	30,728,270
Reclamation deposit (note 4)	150,000	150,000
Deferred finance fee (note 5)	-	150,000
	<u>\$ 33,877,379</u>	<u>\$ 37,507,819</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 288,129	\$ 2,297,293
Short term debt (note 5)	-	3,000,000
	<u>288,129</u>	<u>5,297,293</u>
Long term debt (note 6)	833,078	833,078
Provision for site reclamation and closure costs (note 8)	587,146	533,770
Future income taxes (note 11)	4,287,850	3,586,897
	<u>5,996,203</u>	<u>10,251,038</u>
Shareholders' equity:		
Share capital (note 9)	34,471,513	33,926,741
Contributed surplus (note 10)	6,486,552	5,405,958
Deficit	(13,076,889)	(12,075,918)
	<u>27,881,176</u>	<u>27,256,781</u>
Nature of operations (note 1)		
Commitments and contingencies (notes 4 and 13)		
Subsequent events (notes 4(b) and 9(d))		
	<u>\$ 33,877,379</u>	<u>\$ 37,507,819</u>

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

"Kenneth MacLeod" Director

"John Copeland" Director

WESTERN GEOPOWER CORP.

Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)

Years ended December 31, 2006 and 2005

	2006	2005
Expenses:		
Advertising and promotion	\$ 50,732	\$ 342,135
Amortization and accretion	66,544	69,094
Consulting and advisory fees	83,288	130,396
General and administrative	152,235	189,005
Directors' fees (note 7)	69,500	25,000
Finance costs	150,000	752,104
Interest and bank charges	124,573	441,096
Management fees (note 7)	97,500	232,500
Professional fees	88,099	108,054
Regulatory fees, transfer agents and shareholder communications	96,972	100,443
Rent	41,209	25,508
Salaries	353,872	497,691
Stock-based compensation (note 9 (e))	1,011,945	359,578
Travel and related	58,530	90,538
Loss on disposal of assets	908	24,115
Loss before the undernoted	(2,445,907)	(3,387,257)
Interest income	31,308	62,233
Future income tax recovery (note 11)	1,413,628	171,880
Loss for the year	(1,000,971)	(3,153,144)
Deficit, beginning of year	(12,075,918)	(8,922,774)
Deficit, end of year	\$ (13,076,889)	\$ (12,075,918)
Basic and diluted loss per share	\$ (0.01)	\$ (0.09)
Weighted average number of shares outstanding	88,781,053	33,735,048

See accompanying notes to the consolidated financial statements.

WESTERN GEOPower CORP.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2006 and 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (1,000,971)	\$ (3,153,144)
Items not involving cash:		
Amortization and accretion	66,544	69,094
Amortization of deferred finance costs	150,000	752,104
Loss on disposal of assets	908	24,115
Stock-based compensation	1,011,945	359,578
Future income tax recovery	(1,413,628)	(171,880)
Changes in non-cash operating working capital:		
Amounts receivable	74,632	600,950
Prepaid expenses and deposits	(51,353)	34,521
Accounts payable and accrued liabilities	(381,570)	241,834
	(1,543,493)	(1,242,828)
Financing:		
Cash proceeds from issuance of share capital, net of issuance costs	7,534,639	6,827,917
Proceeds (repayment) on short term loan	(2,000,000)	4,000,000
	5,534,639	10,827,917
Investments:		
Geothermal property costs, net of accounts payable and accrued liabilities	(2,769,933)	(14,478,480)
Purchase of equipment	(3,932)	(137,617)
Proceeds on disposal of equipment	1,000	55,941
Restricted cash	-	2,000,000
	(2,772,865)	(12,560,156)
Increase (decrease) in cash and cash equivalents	1,218,281	(2,975,067)
Cash and cash equivalents, beginning of year	107,417	3,082,484
Cash and cash equivalents, end of year	\$ 1,325,698	\$ 107,417
Supplementary cash flow information:		
Income taxes paid	\$ -	\$ -
Interest paid	124,573	309,222
Interest received	31,308	60,771
Non-cash financing and investing activities:		
Stock-based compensation capitalized to geothermal property	68,649	58,622
Future income taxes on stock-based compensation and capital asset amortization capitalized to geothermal property	49,415	52,326
Amortization of equipment capitalized to geothermal property	41,340	42,410
Site reclamation and closure costs capitalized to geothermal property	-	41,176
Geothermal property costs included in accounts payable and accrued liabilities	106,110	1,733,704
Reduction of short term loan by way of issuing 6,666,667 (2005 - 6,666,667) common shares (note 9(b)(ii) and (iii))	1,000,000	1,000,000
Shares allotted for short term loan extension financing fee (note 5)	-	150,000
Shares issued as consideration for financing fees (note 5)	150,000	752,104

See accompanying notes to the consolidated financial statements.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2006 and 2005

1. Nature of operations:

Western GeoPower Corp. (the Company) is incorporated under the laws of British Columbia. The Company is in the process of developing its Geothermal Projects held for the potential of commercial production of electricity and has not yet determined the economic viability of its projects. The Company's principal projects are the South Meager Geothermal Project located in British Columbia, Canada and the Unit 15 Steam Field located in the Geysers Geothermal Field in Northern California. The underlying value of the geothermal properties and the recoverability of the related deferred costs are entirely dependent on the existence of one or more economic projects and the Company's ability to obtain the necessary financing to complete development, achieve future profitable production and secure and maintain the appropriate permits, rights and beneficial interest in the properties.

These financial statements have been prepared on the basis that the Company will continue as a going concern. At December 31, 2006, the Company had working capital of \$1,221,332. Management recognizes that the Company will need to generate additional financial resources in order to meet its planned business objectives. However, there can be no assurances that the Company will continue to obtain additional financial resources and/or achieve profitability or positive cash flows. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations and exploration activities. Furthermore, failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which would differ significantly from the going concern basis.

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. They include the accounts of the Company and its wholly-owned subsidiaries, Meager Creek Development Corporation and Western GeoPower, Inc., which was incorporated on September 7, 2006. The Company has no variable interest entities as defined under Accounting Guideline 15 *Consolidation of Variable Interest Entities*. All material intercompany transactions and balances have been eliminated on consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and highly liquid investments having original terms to maturity of 90 days or less when acquired.

(c) Reclamation deposit:

The reclamation deposits are recorded at cost.

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Notes to Consolidated Financial Statements
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2. Significant accounting policies (continued):

(d) Equipment:

Equipment is carried at cost less accumulated amortization. Amortization is provided on a declining balance basis over the estimated useful lives of the assets using the following rates:

Asset	Rate
Furniture and fixtures	20%
Camp and field equipment	10 - 20%
Computer equipment	45%
Vehicles	30%

(e) Geothermal properties:

All expenditures related to the acquisition and exploration of geothermal properties are capitalized until either commercial production is established, the property is abandoned or the property is sold. At that time, such costs will either be amortized on a systematic basis or charged to operations. The Company reviews the carrying value of the property on a regular basis for impairment.

If there has been a delay in exploration activity that extends beyond three years, the Company writes off any exploration or acquisition costs related to that property unless persuasive evidence exists to the contrary to support the carrying value as being recoverable. The amount shown for the geothermal properties represents costs incurred to date and does not necessarily reflect present or future values.

(f) Asset retirement obligations:

Future costs to retire an asset, including remediation and ongoing treatment and monitoring of the site, have been recognized and recorded as a liability at fair value. The liability is accreted over time through periodic charges to operations. In subsequent periods, the liability is adjusted for any changes in the amount or timing of the underlying cash flows. The asset retirement cost is capitalized as part of the asset's carrying value and amortized over the asset's useful life. Future asset retirement obligations are not recorded where timing or amount of the remediation costs cannot be reasonably estimated.

(g) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are computed based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using income tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is recognized in operations in the period that substantive enactment occurs. Future income tax assets also result from unused loss carry forwards and other deductions. To the extent that the realization of future income tax assets is not considered to be more likely than not, a valuation allowance is provided.

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2. Significant accounting policies (continued):

(h) Loss per common share:

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. For all periods presented, loss available to common shareholders equals the reported loss. Diluted loss per common share is calculated by the treasury stock method whereby the assumed proceeds of the dilutive exercisable instruments are applied to repurchase common shares at the average market price for the period. The resulting net issuance is included in the weighted average number for purposes of the diluted per share calculation. In the Company's case, all outstanding stock options and warrants are anti-dilutive (note 9), so there is no difference between basic and diluted loss per common share.

(i) Financial instruments:

The carrying values of the Company's cash, amounts receivable, deposits and accounts payable and accrued liabilities approximate their respective fair values due to the short-term maturity of such instruments. The carrying value of the reclamation deposit approximates fair value due to its market based rate of interest. The fair value of long term debt is not readily determinable due to the absence of a market for such an instrument. In management's opinion, the Company is not exposed to significant interest rate, currency or credit risk arising from its financial instruments.

(j) Foreign currency transactions:

These financial statements are presented in Canadian dollars, the Company's functional currency. Amounts denominated in other currencies have been translated into Canadian dollars as follows:

- (i) monetary assets and liabilities at the rate of exchange prevailing at the balance sheet date; and
- (ii) non-monetary assets and liabilities and revenue and expense items at the rate of exchange prevailing at the time of the transactions.

Any gains or losses arising thereon are recorded in the statement of operations.

(k) Stock-based compensation and other stock-based payments:

The Company has a stock option plan that is described in note 9(d). The Company records all stock-based payments using the fair value method. Under the fair value method, stock-based payments for employees are measured at the fair value on the date of grant and stock-based payments to non-employees are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable and are amortized over the vesting period. The offset to the recorded cost is to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital at the time of exercise.

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Notes to Consolidated Financial Statements
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2. Significant accounting policies (continued):

(l) Share capital:

The Company records the proceeds from share issuances net of issue costs. Shares issued for consideration other than cash are valued at the quoted market price on the date the agreement to issue the shares was reached and announced for business combinations and at the date of issuance for other non-monetary transactions.

(m) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. The significant areas requiring the use of management estimates is recoverability of the geothermal property costs, determination of reclamation obligations, valuation allowance for future income taxes and assumptions used for purposes of estimating the fair value of stock options granted. Actual results may differ from those estimates.

(n) Flow-through shares:

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act of Canada (the Act). The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no tax deduction to the Company. The Company records these share issuances by crediting share capital for the full value of the cash consideration received, and subsequently reduces share capital by the estimated amount of the related future tax liability when the expenditures are incurred.

3. Equipment:

2006	Cost	Accumulated amortization	Net book value
Furniture and fixtures	\$ 30,042	\$ 14,091	\$ 15,951
Computer equipment	51,941	39,415	12,526
Camp and field equipment	201,714	61,279	140,435
Vehicles	40,254	21,260	18,994
	<u>\$ 323,951</u>	<u>\$ 136,045</u>	<u>\$ 187,906</u>

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Notes to Consolidated Financial Statements
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3. Equipment (continued):

2005	Cost	Accumulated amortization	Net book value
Furniture and fixtures	\$ 30,042	\$ 10,103	\$ 19,939
Computer equipment	56,463	32,221	24,242
Camp and field equipment	197,782	30,280	167,502
Vehicles	42,431	13,725	28,706
	<u>\$ 326,718</u>	<u>\$ 86,329</u>	<u>\$ 240,389</u>

4. Geothermal properties:

Expenditures incurred on the geothermal properties to date are follows:

	2006	2005
South Meager geothermal project (note 4(a))	\$ 31,483,600	\$ 30,728,270
Unit I5 Steam Field (note 4(b))	546,412	-
	<u>\$ 32,030,012</u>	<u>\$ 30,728,270</u>

(a) South Meager Geothermal Project:

The Company holds two licenses of occupation granted by the British Columbia Ministry of Energy and Mines giving surface tenure to property at Meager Creek, both of which are in good standing. One license is for a term of 26 years expiring December 17, 2017 and the other license is for a term of 10 years expiring June 30, 2007. The Company is in process of renewing this license. Additionally, the Company holds a geothermal lease granted by the British Columbia Ministry of Energy and Mines in respect of certain property at Meager Creek, also expiring December 17, 2017.

The total area under the geothermal lease with the British Columbia Ministry of Energy and Mines is 4,267 hectares. An annual rental payment in the amount of \$42,670 is required to maintain the rights granted by the geothermal lease. The license and lease are recorded in the accounts at a nominal value of \$1.

WESTERN GEOPOWER CORP.

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4. Geothermal properties (continued):

(a) South Meager Geothermal Project (continued):

Expenditures incurred on the geothermal property for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005
Balance, beginning of year:	\$ 30,728,270	\$ 17,994,502
Costs incurred during the year:		
Lease permits and occupancy	42,670	43,045
Project management	140,162	257,869
Camp office and administration	130,600	276,734
Resource delineation	-	4,921
Drilling and testing	229,649	11,588,380
Drill site construction and expansion	-	13,072
Road maintenance and snow removal	3,410	165,069
Community stakeholder relations	44,992	134,449
Environmental review	45,783	98,105
Stock-based compensation (note 9(e))	68,649	58,622
Future income taxes on stock-based compensation and capital asset amortization	49,415	52,326
Provision for site reclamation and closure costs (note 8)	-	41,176
	755,330	12,733,768
Balance, end of year	\$ 31,483,600	\$ 30,728,270

The Geothermal Act of British Columbia provides for an undefined royalty payable to the Crown, therefore the geothermal lease includes a clause that may provide for a royalty agreement if electricity is produced from the geothermal lease and sold. The amount of such royalties, if any, is subject to negotiation.

In addition, the geothermal lease is subject to a royalty of 5% of the net proceeds received from the sale of electrical power produced from the geothermal lease, after deducting operating costs and capital expenditures.

The Company is contingently liable for the site restoration of the geothermal property under the regulations of the Petroleum and Natural Gas Act (the Act) of the Province of British Columbia (note 8). The required deposit under the Act is supported by a term deposit held by the Company in the amount of \$150,000.

WESTERN GEOPOWER CORP.

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Years ended December 31, 2006 and 2005

4. Geothermal properties (continued):

(b) The Geysers Field - Unit 15:

On June 16, 2006, the Company entered into a geothermal lease for the Unit 15 Steam Field covering 421 acres within The Geysers Geothermal Field in Northern California. The lease grants the Company the right to re-develop the geothermal reservoir and build a new plant for electricity generation. An annual rental payment in the amount of US\$100,000 is required to maintain the rights granted by the geothermal lease. The primary lease term is for three years and expires June 15, 2009, however the lease will continue in the event that resource substances are produced in commercial quantities from the leased land and utilized to produce gross revenue.

On October 6, 2006, the Company entered into a second lease for an additional 140 acres contiguous to the Unit 15 Steam Field. An annual rental payment in the amount of US\$10,000 is required to maintain the rights granted by the lease. The primary lease term is for three years and expires October 6, 2009, however the lease will continue in the event that resource substances are produced in commercial quantities from the leased land and utilized to produce gross revenue. If a power plant is constructed on this leased area, then the annual lease payment would increase to US\$45,000. If the power plant is constructed on the first Unit 15 Steam Field leased area (separate lease) there is no charge in the annual compensation amount.

Subsequent to the year ended December 31, 2006, the Company entered into a third lease adding an additional 74 acres contiguous to the Unit 15 Steam Field.

On October 12, 2006, upon completion of a feasibility report prepared by an independent consultant, the Company announced its intention to build a 25.5 megawatt (net) power plant at the Company's Unit 15 Steam Field. The feasibility report projects that the Unit 15 Steam Field leasehold will commercially support a 25.5 megawatt power plant for a minimum of 20 years, with generation continuing at a slightly reduced output factor through 30 years.

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Notes to Consolidated Financial Statements
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4. Geothermal properties (continued):

(b) The Geysers Field - Unit 15 (continued):

Expenditures incurred on the Unit 15 Steam Field geothermal property are as follows:

	2006	2005
Balance, beginning of year:	\$ -	\$ -
Costs incurred during the year:		
Leases	123,465	-
Project management	101,226	-
Administration and project travel	45,263	-
Insurance	43,843	-
Professional fees; title and land search	24,755	-
Resource assessment and feasibility report	51,758	-
Environmental and legal review for power sales bids	94,109	-
Project finance and project development	41,420	-
Environmental - permitting and project development	20,574	-
	546,412	-
Balance, end of year	\$ 546,412	\$ -

5. Short term debt:

On February 4, 2005, the Company entered into a \$4,000,000 standby credit facility with Quest Capital Corp. (Quest), to ensure an uninterrupted continuation of the project activities while the Company secured a financing with Dundee Securities Corporation (Dundee) (note 9(b)(i)). In consideration of the facility, Quest received 436,363 common shares of the Company (note 9(b)). The loan of \$4,000,000 was due October 4, 2005, and bears interest at a rate of 12% per annum, compounded monthly. On April 22, 2005, the due date of the loan was extended to December 15, 2005 and in consideration for the extension of the loan the Company issued 377,922 common shares of the Company (note 9(b)). The value assigned to the shares issued were initially recorded as deferred financing costs and amortized over the term of the debt to finance costs. During the year ended December 31, 2005, the Company recorded total finance costs related to the cost of the shares issued to Quest in the amount of \$752,104. In addition the Company recorded interest expense paid on the loan in the amount of \$430,091.

On December 30, 2005, the Company modified the agreement with Quest, to provide for the repayment of \$3,000,000 of the principal amount of the loan, as at the closing of the Dundee financing (note 9(b)(ii)), and the extension of the maturity date in respect of the remaining \$1,000,000 principal amount of the loan to December 15, 2006. On January 17, 2006, in consideration for the extension of the term of the loan Quest received an additional 1,000,000 common shares. On December 30, 2005, the Company issued 6,666,667 units to Quest for cash proceeds of \$1,000,000. These proceeds were applied to the loan, leaving a balance of \$3,000,000 due to Quest at December 31, 2005. On January 9, 2006, the Company repaid an additional \$2,000,000 plus interest on this loan.

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5. Short term debt (continued):

The value assigned to the shares issued on January 17, 2006 in consideration for the extension of the loan were initially recorded as deferred financing costs and amortized over the term of the remaining debt to finance costs. During the year ended December 31, 2006 the Company recorded total finance costs related to the cost of the shares issued to Quest in the amount of \$150,000. In addition the Company recorded interest expense paid on the loan in the amount of \$120,440.

On December 15, 2006, the Company issued 6,666,667 units to Quest for cash proceeds of \$1,000,000 (note 9(b)(iii)). The proceeds were applied to the remaining balance on the loan and the Company received a complete discharge from Quest over the assets previously pledged as general security on the loan.

6. Long term debt:

Amounts owing of \$833,078 are payable on December 31, 2011. Interest, which is to be calculated at the Royal Bank of Canada's prime rate, will only start to accrue on this debt from the earlier of 90 days following the issuance of a certificate by the appropriate provincial regulatory authorities to permit the development of a geothermal resource on the Company's South Meager geothermal property, or December 31, 2007. At the option of the Company, earlier payment is permitted.

7. Related party transactions:

The following is a summary of amounts charged by officers, directors and by companies controlled by directors:

	2006	2005
Management fees (a)	\$ 187,500	\$ 322,500
Consulting fees (b)	74,801	55,578

(a) \$90,000 (2005 - \$90,000) of management fees is included in geothermal property costs;

(b) Nil (2005 - \$35,000) in consulting fees were paid to an officer of the Company; \$74,801 (2005 - \$20,578) in advisory fees were paid to a director of the Company; of which \$56,226 (2005 - nil) of these fees are included in geothermal property costs;

(c) \$43,500 (2005 - \$25,000) was paid in directors fees; Effective February 1, 2006 the directors fees increased from \$500 per month to \$1,000 per month per director; \$6,000 (2005 - nil) in fees were paid to members of the Audit Committee; Effective February 1, 2006, Audit committee and Compensation committee members are paid a fee of \$500 per committee meeting attended; and the chairman of each committee is paid a fee of \$1,000 per committee meeting chaired; \$20,000 (2005 - nil) in bonuses were paid to two directors.

Included in the accounts payables and accrued liabilities at December 31, 2006 are amounts payable for management fees in the amount of \$7,500, consulting fees in the amount of \$17,835, and director's fees and bonuses in the amount of \$22,500. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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8. Provision for site reclamation and closure costs:

	2006	2005
Balance, beginning of year	\$ 533,770	\$ 445,941
Additional liabilities incurred	-	41,176
Accretion expense	53,377	46,653
Balance, end of year	\$ 587,146	\$ 533,770

The Company's provision for future site reclamation and closure costs is based on known federal and local laws and regulations concerning environmental requirements. It is not currently possible to estimate the impact on financial results, if any, of future legislative or regulatory developments.

Assumptions used in the determination of the site reclamation and closure liabilities include estimated undiscounted costs of \$1,414,788 to be expended from 2007 to 2017 at a discount rate of 10% to 12% and inflation factor of 2.0%. \$132,918 of the asset retirement obligation was to be incurred by December 31, 2007 under the current lease terms. However, the Company is in the process of renewing the license and expects such renewal to occur in fiscal 2007. As such, any reclamation costs associated with this license has been classified as long-term.

9. Share capital:

(a) Authorized:
Unlimited common shares without par value.

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2004	27,709,601	\$ 22,380,159
Issued for cash on private placement, net of issuance costs (note 9(b)(i))	7,744,022	6,830,515
Issued for cash on private placement, net of issuance costs (note 9(b)(ii))	50,838,967	6,922,103
Issued in consideration of fees for short term debt (note 5)	814,285	752,104
Future income tax effect of renouncing flow-through share proceeds expended (note 9(c))	-	(3,108,140)
Balance, December 31, 2005	87,106,875	33,776,741
Issued pursuant to finance fee on short term loan extension (note 5)	1,000,000	150,000
Issued for cash on private placement, net of issuance costs (note 9(b)(iii))	17,538,334	2,609,938
Future income tax effect of renouncing flow-through share proceeds expended (note 9(c))	-	(2,065,166)
Balance, December 31, 2006	105,645,209	\$ 34,471,513

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9. Share capital:

(b) Issued and to be issued (continued):

During the year ended December 31, 2005, the Company completed two private placements as follows

- (i) On April 5, 2005, the Company closed a \$302,322 financing and on April 26, 2005, the Company closed a \$7,000,000 brokered private placement for total gross proceeds of \$7,302,322. The Company issued 6,310,000 flow-through shares and 992,322 non-flow through units, each priced at \$1.00. Each unit is comprised of one share and one warrant to purchase one additional common share at an exercise price of \$1.20 per share until April 22, 2008. The warrants have an accelerator provision such that if the closing price of the Company's common shares exceeds \$1.50 for 20 consecutive business days, the Company may issue a press release indicating the warrant expiry date will become the date 30 days following the date of issuance of the press release. In connection with the private placement, \$65,962 was paid as commissions to sub-agents, \$405,845 was paid for legal and underwriting expenses and the agent received 441,700 common shares as compensation for the sale of flow-through shares. In addition, agents options to purchase an aggregate of 441,700 common shares and 69,463 units, each priced at \$1.00 for a period of three years, have been granted to the agents. Each agents unit is comprised of one share and one warrant to purchase one additional common share at an exercise price of \$1.20 per share until April 22, 2008. The accelerator provisions described above also apply to these warrants. The fair value of these options was estimated to be \$133,972 and has been included on a net basis in share capital.
- (ii) On December 30, 2005, the Company closed a \$6,255,625 brokered private placement and a \$1,000,000 financing with Quest for total gross proceeds of \$6,922,103. The Company issued 2,345,500 flow-through shares and 46,025,344 non-flow through units, each priced at \$0.15. Each unit is comprised of one share and one warrant to purchase one additional common share at an exercise price of \$0.25 per share until December 30, 2008. In connection with the private placement, \$206,218 was paid as commissions to sub-agents and \$127,304 was paid for legal and underwriting expenses and the agents received 2,468,133 units as compensation. In addition, agents options to purchase an aggregate of 4,170,417 units priced at \$0.15 per unit and for a period of three years, were granted to the agents. Each agents' unit is comprised of one share and one warrant to purchase one additional common share at an exercise price of \$0.25 per share until December 30, 2008. The fair value of these options was estimated to be \$840,034 and has been included on a net basis in share capital. The \$1,000,000 proceeds from Quest's participation in the financing were applied to the short term loan due to Quest (note 5). At December 31, 2005, \$5,924,701 of the proceeds from the financing were outstanding, and are included in accounts receivable. These funds were received on January 6, 2006.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2006 and 2005

9. Share capital (continued):

(b) Issued and to be issued (continued):

(iii) On December 18, 2006, the Company closed a \$1,630,750 non-brokered private placement and a \$1,000,000 financing with Quest for total net proceeds of \$2,609,938. The Company issued 17,538,334 units, each priced at \$0.15 per unit. Each unit is comprised of one share and one warrant to purchase one additional common share at an exercise price of \$0.25 per share until December 30, 2008. The \$1,000,000 proceeds from Quest's participation in the financing were applied to the short term loan due to Quest (note 5).

(c) Flow-through shares:

During the year ended December 31, 2005, the Company issued 8,655,500 flow-through shares for gross proceeds of \$6,661,825 of which \$6,310,000 had been expended by December 31, 2005. The expenditures related to the use of flow-through shares proceeds are recorded in geothermal property but are not available as a tax deduction to the Company as the tax benefits of these expenditures have been renounced to the shareholders. In 2005, the Company renounced the flow through share proceeds received in 2004 and expended in 2004, and recorded a future income tax liability of \$3,108,140 related thereto. During the year ended December 31, 2006, the Company renounced \$6,661,825 of the flow through share proceeds received in 2005 and expended in 2005 and 2006, and recorded a future income tax liability of \$2,065,166 related thereto.

(d) Stock options:

The Company has a share option plan approved by the shareholders that allows it to grant incentive stock options for the purchase of common shares of the Company to persons in consideration for services. Stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 10% of the issued shares of the Company at the time of granting and may not exceed 5% to any individual (maximum of 2% to any consultant). The exercise price of stock options is determined by the Board of Directors of the Company at the time of grant, but cannot be less than market price, less permissible discounts, on the TSX Venture Exchange. Options have a maximum term of five years and terminate 90 days following the termination of the optionee's employment, except in the case of retirement, death or disability, in which case the options terminate one year after the event. Vesting of options is made at the time of granting of the options at the discretion of the Board of Directors. Once approved and vested, options are exercisable at any time. During the year ended December 31, 2006, the Company granted 7,380,000 options to employees, consultants, directors and officers of the Company.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2006 and 2005

9. Share capital (continued):

(d) Stock options (continued):

The continuity of the Company's stock options for the year ended December 31, 2006, all of which are exercisable at December 31, 2006, is as follows:

Exercise price	Expiry date	Balance December 31, 2005	Granted	Exercised	Forfeited	Balance December 31, 2006
\$0.35	October 17, 2008	40,000	-	-	-	40,000
\$0.35	January 20, 2009	75,000	-	-	-	75,000
\$0.35	March 16, 2009	25,000	-	-	-	25,000
\$0.35	May 4, 2009	175,000	-	-	-	175,000
\$1.85	May 4, 2007	567,568	-	-	-	567,568
\$1.00	April 22, 2008	511,163	-	-	-	511,163
\$0.35	September 16, 2010	1,665,000	-	-	-	1,665,000
\$0.15	December 30, 2008	4,170,417	-	-	-	4,170,417
\$0.22	February 17, 2011	-	5,130,000	-	-	5,130,000
\$0.28	March 31, 2011	-	300,000	-	-	300,000
\$0.17	August 23, 2011	-	100,000	-	-	100,000
\$0.155	December 19, 2011	-	1,850,000	-	-	1,850,000
		7,229,148	7,380,000	-	-	14,609,148
Weighted average exercise price		\$0.46	\$0.21	-	-	\$0.33
Contractual weighted average remaining life (years)		3.20				3.26

Subsequent to the year ended December 31, 2006, 265,000 stock options were exercised.

The continuity of the Company's stock options for the year ended December 31, 2005, all of which are exercisable at December 31, 2005, is as follows:

Exercise price	Expiry date	Balance December 31, 2004	Granted	Exercised	Forfeited	Balance December 31, 2005
\$0.35	October 17, 2008	1,040,000	-	-	1,000,000	40,000
\$0.35	November 8, 2008	75,000	-	-	75,000	-
\$0.35	December 9, 2008	150,000	-	-	150,000	-
\$0.35	January 20, 2009	175,000	-	-	100,000	75,000
\$0.35	February 6, 2009	100,000	-	-	100,000	-
\$0.35	March 16, 2009	25,000	-	-	-	25,000
\$0.35	May 4, 2009	1,195,000	-	-	1,020,000	175,000
\$1.85	May 4, 2007	567,568	-	-	-	567,568
\$1.00	April 22, 2008 (i)	-	511,163	-	-	511,163
\$0.35	September 16, 2010	-	1,665,000	-	-	1,665,000
\$0.15	December 30, 2008 (i)	-	4,170,417	-	-	4,170,417
		3,327,568	6,346,580	-	(2,445,000)	7,229,148
Weighted average exercise price		\$1.59	\$0.27	-	\$1.51	\$0.46
Contractual weighted average remaining life (years)		3.78				3.20

(i) 4,681,580 of the new grants were agents' options granted to the agents for private placements.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2006 and 2005

9. Share capital (continued):

(e) Stock-based compensation:

The weighted average fair value of options granted during 2006, being \$0.15 (2005 - \$0.25) per option, was estimated using the Black-Scholes option pricing model with the following assumptions; risk free interest rate of 4.06% (2005 - 3.43%); expected dividend yield of 0% (2005 - 0%); volatility factor of 88.78% (2005 - 73.73%) and an expected life of 5 years (2005 - 5 years). Under this method of calculation, the fair value of all options granted during 2006 amounted to \$1,080,594 (2005 - \$377,716), of which \$68,649 (2005 - \$45,371) has been capitalized as geothermal property cost and \$1,011,945 (2005 - \$332,345) has been recorded in the statement of operations.

The weighted average fair value of options repriced during 2005, being \$0.19 (2006 - nil) per option, was estimated using the Black-Scholes option pricing model with the following assumptions; risk free interest rate of 3.22%; expected dividend yield of 0%; volatility factor of 73.73% and an expected life of 3 years. Under this method of calculation, the fair value of all options repriced during 2005 amounted to \$40,484, of which \$13,251 has been capitalized as geothermal property cost and \$27,233 has been reflected in the statement of operations. No repricing of options occurred in 2006.

(f) Share purchase warrants:

The continuity of the Company's warrants for the years ended December 31, 2006 and 2005 is as follows:

Exercise price	Expiry date	Balance December 31, 2005	Issued during the year	Exercised/ expired	Balance December 31, 2006
\$2.50	May 4, 2007	3,180,325	-	-	3,180,325
\$1.20	April 5, 2008	302,322	-	-	302,322
\$1.20	April 22, 2008	690,000	-	-	690,000
\$0.25	December 30, 2008	48,493,467	-	-	48,493,467
\$0.25	December 30, 2008	-	17,538,334	-	17,538,334
		52,666,114	17,537,334	-	70,204,448

Exercise price	Expiry date	Balance December 31, 2004	Issued during the year	Exercised/ expired	Balance December 31, 2005
\$2.50	May 4, 2007	3,180,325	-	-	3,180,325
\$1.20	April 5, 2008	-	302,322	-	302,322
\$1.20	April 22, 2008 (i)	-	690,000	-	690,000
\$0.25	December 30, 2008 (i)	-	48,493,467	-	48,493,467
		3,180,325	49,485,789	-	52,666,114

(i) 4,239,880 of warrants were granted as agents' options for private placements.

WESTERN GEOPower CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2006 and 2005

10. Contributed surplus:

Balance, December 31, 2004	\$ 4,987,758
Fiscal 2005 stock-based compensation (note 9(e))	418,200
Balance, December 31, 2005	5,405,958
Fiscal 2006 stock-based compensation (note 9(e))	1,080,594
Balance, December 31, 2006	\$ 6,486,552

11. Income taxes:

The difference between the Company's actual tax recovery of \$1,413,628 (2005 - \$171,880) and the expected recovery calculated by applying statutory tax rates to the loss for the year is due primarily to non-capital loss carry forwards for which no benefit has been recognized, stock-based compensation not deductible for tax purposes, and the change in future income tax rates from 34% to 31%.

The significant components of the Company's future income tax assets and liabilities at December 31, 2006 and 2005 are as follows:

	2006	2005
Future tax assets:		
Non-capital loss carry forwards	\$ 2,286,000	\$ 1,909,000
Geothermal property	94,000	86,000
Share issuance costs and other	497,000	713,000
Total future tax assets	2,877,000	2,708,000
Valuation allowance	(1,828,700)	(2,708,000)
Net future tax assets	1,048,300	-
Future tax liabilities:		
Geothermal property	5,336,150	3,586,897
Net future tax liabilities	\$ 4,287,850	\$ 3,586,897

At December 31, 2006, the Company has available losses for tax purposes in Canada of approximately \$7,300,000 which can be applied to reduce taxable income until 2026.

WESTERN GEOPower CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2006 and 2005

12. Segmented information:

The Company operates in a single reportable operating segment being the acquisition and development of geothermal properties for the commercial production of electricity in Canada and the United States. Geographic information is as follows.

2006	Canada	United States	Total
Current assets	\$ 1,423,886	\$ 85,575	\$ 1,509,461
Equipment	187,906	-	187,906
Geothermal property	31,483,600	546,412	32,030,012
Reclamation deposit	150,000	-	150,000
Total assets	33,245,392	631,987	33,877,379
Current liabilities	288,129	-	288,129
Long-term liabilities	5,708,074	-	5,708,074
Interest and other income	31,308	-	31,308
Loss for the period	(1,000,971)	-	(1,000,971)

During the year ended December 31, 2005, the Company was engaged in one geographic segment - the development of a geothermal property in British Columbia, Canada.

13. Commitments:

The Company entered into a new lease for its corporate office effective August 1, 2006 until expiry of July 31, 2008. Minimum commitments are as follows:

2007	\$ 58,075
2008	34,608
2009 and thereafter	-
	\$ 92,683



Management's Discussion and Analysis

For the year ended December 31, 2006

WESTERN GEOPOWER CORP.

Management's Discussion and Analysis
For the year ended December 31, 2006
(Expressed in Canadian dollars)

The following Management's Discussion and Analysis of Western GeoPower Corp., (the "Company") dated as at April 23, 2007, should be read in conjunction with the audited consolidated financial statements including the notes thereto for the years ended December 31, 2006 and 2005. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis are expressed in Canadian dollars.

Forward looking statements

This discussion includes certain statements that may be deemed "forward looking statements", that reflect the Company's expectations and projections about its future results. The Company has tried whenever possible, to identify these forward-looking statements using words such as "anticipates," "believes," "estimates," "expects," "plans," "intends," "potential," and similar expressions. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements. The Company disclaims any obligation or intention to update or to revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Company Overview

Western GeoPower Corp is a renewable energy company dedicated to the development of geothermal energy projects for the delivery of clean, base-load electricity generation. The Company holds 100% interests in the South Meager Geothermal Project in British Columbia, Canada and a geothermal lease in Unit 15 Steam Field located in The Geysers Geothermal Field in California, United States. The Company is a reporting issuer in British Columbia, Alberta, Ontario and Quebec and trades on the TSX Venture Exchange under the symbol WGP; and on the NOTC: WGEO; Frankfurt WE6.F.

Project Update:

South Meager Geothermal Project

The South Meager Geothermal Project, is located 170 km north of Vancouver, Canada. The project is held under the only geothermal lease issued in Canada for the commercial generation of electricity and has been extensively explored and evaluated. The Company holds two licenses of occupation granted by the British Columbia Ministry of Energy and Mines giving surface tenure to property at Meager Creek, both of which are in good standing. One license is for a term of 26 years expiring December 17, 2017 and the other license is for a term of 10 years expiring June 30, 2007. The Company is in process of renewing this license. The Company is currently conducting a resource confirmation program (drilling; well testing and evaluation) on the project to determine its economic viability.

The Company completed three full-diameter rotary (directional) resource confirmation wells at the South Meager Geothermal Project in 2004/05. Results from testing conducted immediately following drilling indicated that the wells were cooled substantially during drilling and the initial injection testing to evaluate the permeability characteristics of the wells. Subsequent temperature surveys, after the wells were shut in and allowed to heat up and recover, have confirmed that all three wells encountered high temperatures. Additional injection testing has demonstrated permeability at depth in the fractured intrusive (quartz diorite) and meta-sedimentary reservoir rocks in two of the wells (MC-6, and MC-8); permeability in MC-7 appears to be limited.

Well MC-6 was completed in November 2004, to a total drilled depth of 2,662 meters; the well currently has a maximum measured temperature of 262°C, at a depth of 2,632 meters. Step-rate injectivity tests indicate that the well encountered permeable formations over an interval from about 1,900 meters to approximately 2,500 meters.

Well MC-7 was completed in February 2005 and reached a total drilled depth of 3,291 meters. Temperature surveys carried out in May 2005 recorded a maximum temperature of 252°C at a depth of 2,900 meters. The well encountered few fractures and only isolated losses of circulation during drilling.

Well MC-8 was completed in June 2005, to a total drilled depth of 2,380 meters. The well intersected some fractures from 2,090 meters to 2,175 meters, and encountered a highly fractured interval, with substantial losses of circulation, below 2,345 meters to total depth at 2,380 meters. MC-8 was still heating when site operation had to be suspended for the winter; a temperature survey in November 2005 recorded maximum temperature in the well on the order of 240°C.

Testing of the resource confirmation wells is incomplete at this time and has not yet demonstrated the production capacities of the wells. During the year ended December 31, 2006, the Company performed a new set of temperature surveys. Data from the latest surveys have now been analyzed by GeothermEx, Inc., of Richmond, California, technical consultant for the South Meager project.

The surveys show that the wells have continued to heat up in comparison to surveys of November 2005. MC-6 continues to recover from the extended injection test of 2005 and is expected to recover to stabilized temperatures in the range of 245 to 260 degrees Celsius (473 to 500 degrees Fahrenheit) in the permeable interval below a measured depth of 1,800 metres (5,906 feet). MC-7 has now heated to a maximum measured temperature of 259 degrees Celsius (498 degrees Fahrenheit) at a depth of 2,800 metres (9,186 feet). MC-8 also has continued to heat up in comparison to surveys last November, but has not yet reached a temperature at which the well is likely to sustain self-flow. Because wells MC-6 and MC-8 are still recovering in temperature, GeothermEx has advised that it would be premature to proceed with testing at the present time. For this reason, the Company is electing to defer a planned program of air-lifting to flow test the wells until further temperature recovery occurs. The Company plans to continue periodic temperature surveys in the wells at South Meager to determine the optimal time for flow testing.

Unit 15 – The Geysers

On June 16, 2006 the Company acquired a geothermal lease for the Unit 15 Steam Field covering 421 acres within The Geysers Geothermal Field in Northern California. The lease grants the Company the right to re-develop the geothermal reservoir and build a new plant for electricity generation. On October 6, 2006, the Company increased the lease area by entering into another geothermal lease covering an additional 140 acres contiguous to the Unit 15 Steam field acquired in June 2006. Total area under lease by the Company at the Geysers exceeds 500 acres. It is

anticipated that one power plant will process steam production from both leaseholds. Subsequent to the year ended December 31, 2006, the Company entered into a third lease adding an additional 74 acres contiguous to the above location, increasing the leasehold area to approximately 600 acres.

The Company retained consultants GeothermEx, Inc. to provide an independent assessment of the resource on the combined leasehold. The report prepared by GeothermEx, Inc. projects that the Unit 15 leasehold could commercially support a 25.5 megawatt (net) power plant for a minimum of 20 years, with generation continuing at a slightly reduced output factor through 30 years. The report is based on a large database of resource information and demonstrated production history on the Unit 15 leasehold.

The proposed 25.5 megawatt plant is expected to have a 95% availability factor. Total development costs, including power plant, gathering system, transmission system, administrative and finance charges, have been estimated to US\$97 million. The Company has launched efforts to secure funding for the entire field and plant development.

For regulatory purposes, the project is reviewed in two phases. Under the California Environmental Quality Act (CEQA), the California Division of Oil, Gas and Geothermal Resources is the lead agency for the permitting of up to 6 initial wells. Sonoma County has lead agency status under the CEQA for the well field development, power plant, steam pipelines and infrastructure. In the normal course of events, approval for the initial drilling is anticipated for the first half of 2007 and project development permitting is anticipated to be granted in mid-2008.

History – the Geysers Field

Commercial geothermal power has been generated continuously at The Geysers Field since 1960, the present generation level being about 900 megawatts. The Unit 15 leasehold is situated in the southwestern region of The Geysers Field in Sonoma County and much of the leasehold lies within the presently known boundary of The Geysers Field. A commercial power plant of 62 megawatt (gross) capacity, known as P.G. & E. Unit 15, operated at the leasehold during 1979-1989.

It is now recognized that the Unit 15 plant was oversized for the available resource. For this reason, the wells supplying the plant experienced a rapid decline in productivity, similar to the decline experienced throughout The Geysers Field at that time. The plant was shut down in 1989 and eventually dismantled, and the wells were plugged and abandoned.

Since the mid-1990s, the rate of decline in well productivity at The Geysers has eased substantially, and reservoir pressure has stabilized. In large part, this is due to increased injection into the reservoir. Reservoir pressure under the Unit 15 leasehold is believed to have recovered since the wells stopped production.

The Unit 15 Steam Field acquisition enables Western GeoPower to establish an immediate presence in the U.S. market which continues to be the world leader in the generation of electric power from geothermal energy. The U.S. Geothermal Energy Association recorded on-line capacity of 2,828 megawatts in 2005 in the four 'geothermal generating' states – California, Hawaii, Nevada and Utah – with approximately 2,000 megawatts of new plant capacity currently under development in nine states.

On September 26, 2006 California adopted a new Renewables Portfolio Standard (RPS) that requires regulated utilities to produce at least 20% of their electricity supply from renewable energy by 2010, advancing the goal from 2017. The Company has submitted power sales bids in response to

Requests For Proposals issued by several California utilities that are expected to conclude Power Purchase Agreements in 2007.

Annual Financial Information

FOR THE YEARS ENDED DECEMBER 31	2006	2005	2004
FINANCIAL RESULTS			
INTEREST INCOME	\$ 31,308	\$ 62,233	\$ 181,834
NET LOSS	(1,000,971)	(3,153,144)	(5,215,578)
LOSS PER SHARE (Basic and diluted)	\$ (0.01)	\$ (0.09)	\$ (0.21)
FINANCIAL POSITION			
WORKING CAPITAL	\$ 1,221,332	\$ 941,867	\$ 1,930,292
GEOHERMAL PROPERTY	32,030,012	30,728,270	17,994,502
TOTAL ASSETS	33,877,379	37,507,819	24,317,178
LONG-TERM LIABILITIES	5,708,074	4,953,745	1,887,330

Results of Operations

For the year ended December 31, 2006, the Company incurred a loss of \$1,000,971 (\$0.01 per share) compared to a loss of \$3,153,144 (\$0.09 per share) for the year ended December 31, 2005.

Summary Data:	Year ended December 31, 2006	Year ended December 31, 2005
Interest income	\$ 31,308	\$ 62,233
Future income tax recovery	1,413,628	171,880
Administrative expense	(1,163,522)	(1,845,484)
Finance charges	(150,000)	(752,104)
Interest on loan	(120,440)	(430,091)
Stock-based compensation expense	(1,011,945)	(359,578)
Loss for the period	\$ (1,000,971)	\$ (3,153,144)

During the year ended December 31, 2006, the Company granted 7,380,000 stock options to directors, officers, employees and consultants. The fair value of the options granted during the period amounted to \$1,080,594, of which \$68,649 has been capitalized as geothermal property costs and \$1,011,945 has been reflected in the statement of operations. During the year ended December 31, 2005, the company granted 1,665,000 stock options to directors, officers, employees and consultants. The fair value of the options granted during the period amounted to \$377,716, of which \$45,371 has been capitalized as geothermal property costs and \$332,345 has been reflected in the statement of operations. During the year ended December 31, 2005, 315,000 of previously granted options to employees and consultants were repriced to \$0.35. The fair value of all the repriced options amounted to \$40,484, of which \$13,251 has been capitalized as geothermal property cost and \$27,233 has been reflected in the statement of operations. No repricing occurred in 2006. In addition during the year ended December 31, 2005, 1,080,000 of previously granted options to directors and officers were forfeited, and 1,365,000 previously granted options to officers, employees and consultants were cancelled due to termination of contracts.

On February 4, 2005, the Company entered into a \$4,000,000 standby credit facility with Quest Capital Corp., in consideration of the facility, Quest received 436,363 common shares of the Company. The loan of \$4,000,000 was due October 4, 2005, and bears interest at a rate of 12% per annum, compounded monthly. On April 22, 2005 the due date of the loan was extended to December 15, 2005 and in consideration for the extension the Company issued 377,922 common shares of the Company. During the year ended December 31, 2005, the Company recorded total financing costs related to the cost of the shares issued to Quest in the amount of \$752,104. In addition the Company recorded interest expense paid on the loan in the amount of \$430,091.

On December 30, 2005, the Company modified the agreement with Quest, to provide for the repayment of \$3,000,000 of the principal amount of the loan, as at the closing of the Dundee financing, and the extension of the maturity date in respect of the remaining \$1,000,000 principal amount of the loan to December 15, 2006. On December 30, 2005, the Company issued 6,666,667 Units to Quest in the financing at \$0.15 for proceeds of \$1,000,000. The proceeds were applied to the loan, leaving a balance of \$3,000,000 due to Quest at December 31, 2005. On January 9, 2006, the Company repaid an additional \$2,000,000 plus interest from the proceeds of December 2005 financing. On January 17, 2006, in consideration for the extension of the term of the loan Quest received a non-refundable bonus in the amount of \$150,000 payable in the form of 1,000,000 common shares. During the year ended December 31, 2006, the Company recorded total finance costs related to the cost of these shares in the amount of \$150,000. In addition the Company recorded interest expense paid on the loan in the amount of \$120,440.

On March 30, 2006, the managing director of Quest was appointed director of the Company.

On December 15, 2006, the Company issued 6,666,667 Units to Quest in the financing at \$0.15 for cash proceeds of \$1,000,000. The proceeds were applied to the remaining balance on the loan and the Company received a complete discharge from Quest over the assets previously pledged as general security on the loan

During the year ended December 31, 2006, overall expenditures decreased by \$681,962 to \$1,163,522 (2005-\$1,845,484). The most significant decrease was a \$323,411 reduction in advertising and promotion costs to \$109,262 (2005-\$432,673). Overall advertising and promotional costs have been maintained in both years, included in the costs for 2005 were one time fees in the amount of \$328,000 for listing and marketing in Norway, that were not reoccurring fees.

During the year ended December 31, 2006, general and administrative expense decreased by \$36,770 (19%) to \$152,235 (2005-\$189,005) primarily due to a reduction in management insurance as a result of the Chairman position not being replaced in 2006; and telephone/fax charges, as a result of a reduction in the European consultants in last quarter of 2005; consulting and advisory fees expense decreased by \$47,108 (36%) to \$83,288 (2005-\$130,396) primarily due to \$56,226 of advisory fees in 2006 are included in geothermal property costs, whereas in 2005 they were all expensed; management fees decreased by \$135,000 (58%) to \$97,500 (2005-\$232,500) due to the retirement of the Chairman at August 31, 2005; Professional fees decreased by \$19,955 (18%) to \$88,099 (2005-\$108,054) due to significant non-recurring legal costs in 2005 incurred on short term loan and other one time company matters. Salary expense decreased by \$143,819 (29%) to \$353,872 (2005-\$497,691) due to reduction in head office staff during the last quarter of 2005. Rent expense increased by \$15,701 (62%) to \$41,209 (2005-\$25,508); Effective August 1, 2006 the company entered into a new office lease for a period of 24 months to July 31, 2008. The Company was previously in a subleased office, whereby it was receiving a discounted rate of only \$2,000 per month.

During the year ended December 31, 2006, the Company recorded a recovery on future income tax of \$1,413,628 (2005-\$171,880), the difference between the Company's actual tax recovery of \$1,413,628 (2005-\$171,880) and the expected recovery calculated by applying statutory tax rates to the loss for year is due primarily to non-capital loss carry forwards for which no benefit has been recognized, stock-based compensation not deductible for tax purposes, and the change in future income tax rates from 34% to 31%. The company recorded a loss on disposal of assets of \$908 (2005-\$24,115). Interest income of \$31,308 for the year ended December 31, 2006, (2005-\$62,233) is comprised of interest earned on cash balances.

The net losses are a reflection of the Company's status as a non-revenue producing energy company. As the Company has no source of income, losses are expected to continue.

Quarterly Financial Information

FISCAL QUARTER - ENDED	4 th Quarter Dec 31, 2006	3 rd Quarter Sept 30, 2005	2 nd Quarter June 30, 2005	1 st Quarter Mar 31, 2005
INTEREST INCOME	\$ 4,897	\$ 7,061	\$ 11,316	\$ 8,034
NET INCOME (LOSS)	827,493	(337,605)	(386,828)	(1,104,031)
INCOME (LOSS) PER SHARE	\$ 0.009	\$ (0.004)	\$ (0.004)	\$ (0.013)

FISCAL QUARTER - ENDED	4 th Quarter Dec 31, 2005	3 rd Quarter Sept 30, 2005	2 nd Quarter June 30, 2005	1 st Quarter Mar 31, 2005
INTEREST INCOME	\$ 1,596	\$ 8,655	\$ 29,789	\$ 22,193
NET LOSS	(358,858)	(1,065,864)	(1,164,277)	(564,145)
LOSS PER SHARE	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.02)

An analysis of the quarterly results over the last eight quarters shows a significant variation between the quarters of 2006 and 2005. The primary reason is due to the stock-based compensation expense in the third quarter of 2005, and in quarters one and four of 2006. The other significant variance is due to the finance costs in the amount of \$150,000 in 2006 (2005-\$752,104) and interest expense incurred in 2006 in the amount of \$120,440 (2005-\$430,091) from the loan from Quest. The costs were higher in 2005, as the amount of the loan initially was \$4.0M in 2005, where as the finance costs and interest in 2006 were based on a \$1.0M balance.

Liquidity and Capital Resources

The Company does not have any cash flow from operations. The Company receives cash for use in operations principally from issuing common shares. The Company has been successful in accessing the equity markets in the past and while there is no guarantee that this will continue to be available, management has no reason to expect that this will diminish in the immediate term.

On December 18, 2006, the Company completed a \$1,630,750 non-brokered private placement and a \$1,000,000 financing with Quest for total net proceeds of \$2,609,938. The Company issued 17,538,334 units, each priced at \$0.15. Quest's participation of \$1,000,000 was applied towards the remaining balance of the outstanding loan. The remainder of the proceeds will be used to conduct the further testing of the wells, acquisition and permitting for Unit 15, Geysers field, and for general working capital purposes.

At December 31, 2006, the Company had a working capital of \$1,221,332. The ongoing development of the project will require the Company to raise additional capital through equity financings or a Joint Venture partner. Management has launched efforts to secure funding for the entire field and plant development.

Contractual Obligations:

Contractual Obligations:	Total	2007	2008	2009 and thereafter
Long-term debt	\$ 833,078	-	-	\$ 833,078
Site reclamation and closure costs	587,146	132,918	-	1,281,870
Office lease	92,683	58,075	34,608	-

The long-term liability of \$833,078 due to Crew Development Corporation is not due until December 31, 2011. Interest will only accrue on the debt from earlier of 90 days following the issuance of a certificate by the appropriate provincial regulatory authorities in British Columbia to permit the development of the geothermal resource on the Company's lease held property, or December 31, 2007, with all interest to be calculated at the Royal Bank of Canada's prime rate.

The Company's provision for future site reclamation and closure costs is based on known federal and local laws and regulations concerning environmental requirements. It is not currently possible to estimate the impact on financial results, if any, of future legislative or regulatory developments. To the extent that the Company continues to be engaged in active exploration and development of the project, reclamation and closure costs will be deferred. Site reclamation and closure liability in the amount of \$132,918 was due to be incurred by December 31, 2007 under the current license terms. However, the Company is in the process of renewing the license and expects such renewal to occur in fiscal 2007. Accordingly the liability associated with this license is expected to be pushed out to a long term liability. Upon confirmation of extension of the license, the Company will reevaluate the long term liability relating to this license.

Related Party Transactions

During the year ended December 31, 2006, the Company paid management fees to the President of the Company in the ordinary course of business amounting to \$187,000 (2005-\$202,500), of which \$90,000 (2005-\$90,000) is included in geothermal property costs. During the year ended December 31, 2005, the Company paid management fees to the Chairman of the Company in the ordinary course of business amounting to \$120,000 (2006-Nil). During the year ended December 31, 2005 \$35,000 (2006-Nil) in consulting fees were paid to an officer of the Company; \$74,801 (2005-\$20,578) in advisory fees were paid to a director of the Company; \$56,226 (2005-Nil) of these fees are included in geothermal property costs. Board member fees were paid to directors in the amount of \$ 43,500 for the year ended December 31, 2006 (2005-\$25,000); In addition during the year ended December 31, 2006, committee members were paid fees in the amount of \$6,000 (2005-Nil). Effective February 1, 2006, the directors fees increased from \$500 a month to \$1,000 a month per director; In addition committee members are paid a fee of \$500 per committee meeting attended, and the chairman of the committee is paid a fee of \$1,000 per committee meeting. During the year ended December 31, 2006, directors were paid a bonus in the amount of \$20,000 (2005-Nil).

Fourth Quarter

During the quarter ended December 31, 2006 the company had net income of \$827,493, compared to a loss of \$358,858 for the quarter ended December 31, 2005. During the fourth quarter of 2006, the Company recorded a recovery on future income tax of \$1,413,628 (2005-\$171,880), the difference between the Company's actual tax recovery of \$1,413,628 (2005-\$171,880) and the expected recovery calculated by applying statutory tax rates to the loss for year is due primarily to non-capital loss carry forwards for which no benefit has been recognized, stock-based compensation not deductible for tax purposes, and the change in future income tax rates from 34% to 31%.

During the fourth quarter of 2006, the Company granted 1,850,000 stock options to directors, officers, employees and consultants. The fair value of the options granted during the period amounted to \$190,352 and has been reflected in the statement of operations. There were no options granted during the fourth quarter of 2006.

Finance costs for the quarter ended December 31, 2006, amounted to \$32,665, compared to \$86,890 for the quarter ended December 31, 2005. Interest expense for the fourth quarter 2006 amounted to \$21,367, compared to \$121,384 for the fourth quarter of 2005. Finance costs and interest expense were higher in 2005, and were a result of the \$4.0M short term debt due to Quest. In 2006, the finance costs and interest were based on \$1.0M of the debt that was outstanding during 2006.

Advertising and promotion for the fourth quarter of 2006 amounted to \$14,266 compared to \$29,644 incurred in the fourth quarter of 2005. General administration for the fourth quarter of 2006 amounted to \$30,854 compared to \$39,547 incurred in the fourth quarter of 2005.

Professional fees for the fourth quarter of 2006 amounted to \$27,533 compared to \$18,396 incurred in the fourth quarter of 2005. The increase in 2006 is due primarily to the fees incurred for the review of internal control and documentation of the Company. Regulatory fees for the fourth quarter of 2006 amounted to \$43,730 compared to \$21,243 for the fourth quarter of 2006. The increase in 2006 is primarily due to de-registration of the Trust agent account in Norway. Office rent for the fourth quarter of 2006 amounted to \$14,859 compared to \$6,311 for the fourth quarter ended 2005. The increase is due to the change in office on expiry of lease and rental increases.

Proposed Transactions

There are no proposed assets or business acquisitions or dispositions, other than those in the ordinary course or disclosed herein, which are before the board of directors for consideration.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the consolidated financial statements include the Company's estimate of recoverability of the geothermal property costs, the value of stock-based compensation and site reclamation and closure costs.

The Company's recoverability of the recorded value of its geothermal property costs is dependent on many factors beyond the Company's control; for instance, prices and markets for electricity, responses to changes in domestic, political, social and economic environments. The Company is engaged in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable resources and the ability of the Company to obtain necessary financing to construct plant and transmission facilities.

The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors including the market value of the Company's share and financial objectives of the stock-based instrument holders. The Company used historical data to

determine volatility in accordance with the Black-Scholes model, however the future volatility is uncertain and the model has its limitations.

The Company's provision for future site reclamation and closure costs is based on known federal and local laws and regulations concerning environmental requirements. It is not currently possible to estimate the impact on financial results, if any, of future legislative or regulatory developments. Assumptions used in the determination of the site reclamation and closure liabilities include estimated costs, a discount rate of 10% to 12% and inflation factor of 2.0%. Future asset retirement obligations are not recorded where timing or amount of the remediation costs cannot be reasonably estimated.

Changes in Accounting Policy

No new accounting policies in 2006

New Accounting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") issued Section 3855, "Financial Instruments-Recognition and Measurement", Section 3861, "Financial Instruments-Disclosure and Presentation", Section 3865, "Hedges", Section 1530, "Comprehensive Income", all of which are applicable to the Company for annual and interim accounting periods beginning in January 1, 2007.

Section 3855 requires all financial assets, financial liabilities and non-financial derivatives to be recognized on the balance sheet and measured based upon specific categories. Section 3861 identifies and details information to be disclosed in the financial statements.

Section 3865 identifies when hedge accounting can be applied and it builds upon existing Canadian GAAP guidance which specifies how hedge accounting is applied and disclosed. This standard is not expected to materially affect the Company's reporting because the company currently does not use hedge accounting.

Section 1530 introduces new standards for the presentation and disclosure of the components of comprehensive income. Comprehensive income is defined as the change in the net assets of an enterprise during a reporting period from transactions and other events and circumstances from non-owner resources.

The Company is evaluating the full impact of the above noted standards and will be required to present a new statement entitled "Comprehensive Income".

The CICA also issued Section 1506, "Accounting Changes", which is effective January 1, 2007 and revises the current standards on changes in accounting policy and estimates or errors as follows: voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information; changes in accounting policy are to be applied retrospectively unless doing so is impracticable; changes in estimates are to be recorded prospectively; and prior period adjustments are to be recorded retrospectively. In addition, this standard calls for enhanced disclosure about the effects of changes in accounting policies, estimates and errors on the financial statements. The Company cannot determine the impact of Section 1506 until such time as it makes a change in accounting policy.

Financial Instruments

The carrying value of the Company's cash, amounts receivable, deposits and accounts payable and accrued liabilities approximate their respective fair values due to the short-term maturity of such instruments. The carrying value of the reclamation deposit approximates fair value due to its market based rate of interest. The fair values of long term debt is not readily determinable due to the absence of a market for such instrument. In management's opinion, the Company is not exposed to

significant interest rate, currency or credit risks arising from its financial instruments.

Off Balance sheet items

The Company does not have any off balance sheet items.

Outstanding Share Data

As at December 31, 2006, there were 105,645,209 common shares outstanding. A total of 70,204,448 share purchase warrants, 5,249,148 Agents options and 9,360,000 stock options were also outstanding, which are described in detail in notes 10(b), 10(d) and 10(f) to the audited financial statements. Subsequent to the year ended December 31, 2006, the company issued 265,000 shares on exercise of stock options.

As at April 23, 2007, the Company's outstanding share data was as follows:

Common shares outstanding: 105,910,209

Share purchase warrants:

3,180,325 at an exercise price of \$2.50 per share and an expiry date of May 4, 2007.

302,322 at an exercise price of \$1.00 per share and an expiry date of April 5, 2008.

690,000 at an exercise price of \$1.00 per share and an expiry date of April 22, 2008.

48,493,467 at an exercise price of \$0.25 per share and an expiry date of December 30, 2008.

17,537,334 at an exercise price of \$0.25 per share and an expiry date of December 30, 2008.

Stock options: 9,095,000

Agent's options: 5,249,148

Risk Factors/ Trends

The Company's area of business is the identification, acquisition, evaluation, exploration and development of geothermal properties. An investment in natural resource companies involves a significant degree of risk. The degree of risk increases substantially where the Company's properties are in the exploration as opposed to the development stage. Investment in the securities of the Company should be considered as highly speculative due to the nature of the Company's business.

Until the balance of the development program is completed, the viability of the South Meager Geothermal Project is undetermined. The long-term success of the Company relies on various factors, such as the technical characteristics of the geothermal resource, the cost to develop the facilities, the pricing of the electricity and financing the project. Other factors include the ability of the Company to obtain and maintain appropriate licenses and permits as well as addressing environmental and aboriginal issues. The Company will require additional capital to pursue its objective of developing its geothermal projects. The following are some of the risk factors that should be given consideration.

Exploration and Development Risks

Geothermal exploration involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations, in which the Company has interest will be subject to all the hazards and risks associated with exploration, development and production.

Insurance

The Company's involvement in the exploration and development for geothermal resources may result in the Company becoming subject to liability for pollution, property damage, personal injury or other hazards and any insurance the Company may have may not be sufficient to cover the full extent of such liabilities.

Prices, Markets and Marketing of Geothermal/ Renewable Energy

Prices for geothermal renewable energy are affected by numerous factors beyond the Company's control including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new developments and improved production methods. The effect of these factors on the price of energy and therefore the economic viability of any of the Company's projects cannot accurately be predicted.

The marketability of the Company's assets acquired or discovered may be affected by numerous factors which are beyond the control of the Company and which cannot be accurately predicted.

Substantial Capital Requirements; Liquidity

The Company anticipates that it may make substantial capital expenditures for the acquisition, exploration, development and production of its geothermal properties in the future. The Company currently has no revenue and may have limited ability to expend the capital necessary to undertake or complete future exploration or development programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

Environmental Risks

All phases of the geothermal exploration and development businesses present environmental risks and hazards and are subject to environmental regulations. Compliance with such legislation/ regulations can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner, which may lead to stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. No assurance can be given that the application of environmental laws to the business and operations of the Company will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition and results of operations.

Issuance of Debt

From time to time the Company may enter into transactions financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may rise. The Company's ability to service its debt obligations will depend on the Company's future operations, which are subject to industry condition and other factors that may be beyond the control of the Company.

Exchange Rate Fluctuations

Fluctuations in the currency exchange rates, principally the Canadian/ U.S. dollar exchange rate, can significantly impact cash flows. The exchange rate has varied over time. Fluctuations in exchange rates may give rise to foreign currency exposure, either favourable or unfavourable, which may impact financial results.

Oversight Role of the Audit Committee

The Audit Committee fulfills its role of ensuring the integrity of the reported information through its review of the interim and audited financial statements prior to their submission to the Board of Directors for approval. The Audit Committee meets with management quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters. For each audit, the external auditors prepare a report for members of the Audit Committee summarizing key areas, significant issues and material control weaknesses encountered, if any.

Disclosure Controls and Procedures

The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. We have assessed the design of our internal control over financial reporting and identified certain weaknesses which are as follows:

1. Although the Company has a Whistleblower Policy of which employees are aware, this Policy is informal. The Company is in the process of formalizing this Policy, which is expected to occur by the end of May 2007.
2. Material adjustments were made to the future income tax asset as a result of the year end audit. Management determined these adjustments were caused by a lack of technical accounting knowledge related to accounting for future income taxes. This was due to personnel constraints. The Company is implementing a policy whereby finance personnel will consult with an external tax advisor before tax adjustments are recorded in the financial statements. Further, the Company intends to implement a quarterly review with an external tax advisor. The Company plans to have these procedures in place by end of June 2007.

Additional Information

Additional information relating to the Company, including its Annual Audited Financial Statements are available on SEDAR at www.sedar.com and the Company's website www.geopower.ca