WESTERN GEOPOWER CORP.

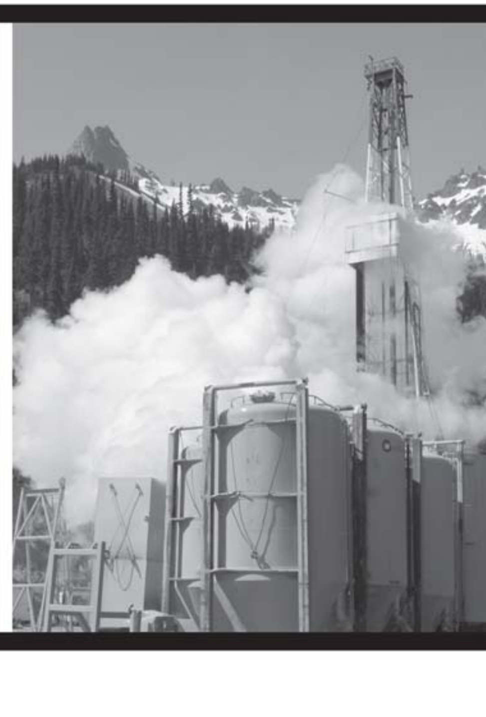
Report to Shareholders

Management Discussion and Analysis

Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended December 31, 2005 and 2004



WESTERN GEOPOWER CORP.

Management's Discussion and Analysis
For the year ended December 31, 2005
(Expressed in Canadian dollars)

The following Management's Discussion and Analysis of Western GeoPower Corp., (the "Company") dated as at April 27, 2006, should be read in conjunction with the audited consolidated financial statements including the notes thereto for the years ended December 31, 2005 and 2004. 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.

Company Overview

Western GeoPower Corp is dedicated to the development of its 100% owned, South Meager Geothermal Project, located 170km 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 is currently conducting a resource confirmation program (drilling; well testing and evaluation) on the project to determine its economic viability, following which the Company intends to complete a feasibility study, in anticipation of attaining project approvals from the appropriate regulatory bodies and securing project financing for construction of a power generation facility. The Company is also investigating advanced stage geothermal projects in the United States with a view toward acquiring equity or joint venture interest in the projects. 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

The Company completed three full-diameter rotary (directional) resource confirmation wells at the South Meager Geothermal Project in 2004/05. In spite of the difficult operation conditions the three wells were completed on schedule and on budget, without any major difficulties or problems, demonstrating that the type of wells required to exploit the high temperature resource can be successfully drilled at South Meager.

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.

Based on the analysis of the initial test results from the three wells, the Company's technical consultant, GeothermEx, Inc., Richmond, California, believes that wells MC-6 and MC-8 may be commercial. Testing of the resource confirmation wells, however is incomplete at this time and has not yet demonstrated the production capacities of the wells. Over the past several months, the Company has been working closely with GeothermEx, Inc. to develop a programme for further testing of the wells at South Meager. The programme will be implemented in the summer, once access to the drill site has been restored.

Outlook

The Company has continued the necessary environmental studies and intends to submit an Application for Project Certification from the Province's Environmental Assessment Office following the flow-testing of MC-6 and MC-8 in 2006. The results of the resource confirmation program will form the basis of a project feasibility study which will be utilized to secure project financing.

Upon completion of the feasibility study, receipt of governmental project approvals and negotiation of a power sales contract, the Company proposes to secure the balance of the capital required to place the project into commercial production on the basis of a staged development appropriate for the size of the resource, with the initial unit anticipated for startup in 2009.

The project will involve the design, construction and operation of physical facilities comprising production and injection wells, a gathering and injection system and a power generation plant at the plant site and a transmission line and inter-tie.

Production wells will be constructed by directional drilling from a small number of drill pads (as few as three depending on the size of the reservoir), thus reducing both project costs and potential environmental impacts. Dry production holes also can be used to inject process water back into the reservoir. Anticipated well depths are 2,000 – 3,000 meters. The wells will be drilled using established technology similar to that employed in the oil and gas industry.

The proposed gathering system consists of pipelines and vessels that transport the steam from the wellheads to the power plant. The injection system handles two streams of injection fluids: 1) hot water remaining after flash in low-pressure separators; and 2) excess cooling water derived from steam condensation.

The generating plant will use flash steam turbine technology utilized in geothermal plants around the world. It is envisaged that the South Meager Project will utilize dual-flash turbine technology.

A 230 kV line will tie in to the BC Transmission Corporation system that serves all of British Columbia and interconnects with the grid that provides access to Canadian and U.S. consumers. Preliminary studies have identified three potential routes utilizing existing transportation corridors and an engineering and environmental assessment of these routes is under way. On determination of commercial viability, the Company intends to submit a proposal to BC Hydro under its anticipated fiscal 2007 call for power, to sell power from South Meager.

Annual Financial Information

FOR THE YEARS ENDED DECEMBER 31	2005	2004	2003
FINANCIAL RESULTS			
INTEREST AND OTHER INCOME	$ 234,113	$ 181,834	$ 1,339
NET LOSS	(3,153,144)	(5,215,578)	(1,714,456)
LOSS PER SHARE (Basic and diluted)	$ (0.09)	$ (0.21)	$ (0.13)
FINANCIAL POSITION			
WORKING CAPITAL	$ 941,867	$ 1,930,292	$ 3,507,975
GEOTHERMAL PROPERTY	30,728,270	17,994,502	2,934,457
TOTAL ASSETS	37,507,819	24,317,178	7,303,362
LONG-TERM LIABILITIES	4,953,745	1,887,330	1,064,133

Results of Operations

For the year ended December 31, 2005, the Company incurred a loss of $3,153,144 ($0.09 per share) compared to a loss of $5,215,578 ($0.21 per share) for the year ended December 31, 2004.

Summary Data:	Year ended December 31, 2005	Year ended December 31, 2004
Interest and other income/recoveries	$ 234,113	$ 181,834
Administrative expense	(1,845,484)	(2,624,070)
Finance charges	(752,104)	-
Interest on loan	(430,091)	-
Stock-based compensation expense	(359,578)	(2,773,342)
Loss for the period	$ (3,153,144)	$ (5,215,578)

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, 2004, the company granted 1,570,000 stock options to directors, officers, employees and consultants. The fair value of the options granted during the year amounted to $2,699,861, of which $369,119 has been capitalized as geothermal property cost and $2,330,742 has been reflected in the statement of operations. An additional stock-based compensation expense of $442,600 was included during 2004 for the portion of the 2003 options granted that vested in 2004. 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 2004. 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 377,992 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 (2004 – Nil). In addition the Company recorded interest expense paid on the loan in the amount of $430,091 (2004- Nil).

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 Capital 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, 2005, overall expenditures decreased by $778,586 to $1,845,484 (2004 - $2,624,070). The most significant decrease was a $456,333 reduction in advertising and promotion and travel costs related to conferences and road shows to $432,673 (2004 – $889,006).

For the year ended December 31, 2005, general and administrative expense decreased by $136,004 to $189,005 (2004 - $325,009) primarily due to reduced promotions and conferences; consulting and advisory fees decreased by $39,194 to $130,396 (2004 - $169,590) due to decrease in external consultants; management fees decreased by $86,667 to $232,500 (2004 - $319,167) due to the retirement of the Chairman at August 31, 2005 and no bonuses paid in 2005; Professional fees decreased by $108,887 to $108,054 (2004 - $216,941) due to significant non-recurring legal costs in 2004 incurred for reinstating the Norwegian registry system. Regulatory fees decreased by $34,480 to $100,443 (2004 - $134,923) also due to a one time cost incurred in 2004 for the reinstatement of the Norwegian Registry. Salary expense increased by $40,168 to $497,691 (2004 - $457,523) due to much of the support staff being employed starting in May 2004, with full head office support staff continuing through 2005, until significant reductions occurred in the last half of the year.

During the year ended December 31, 2005, the Company recorded a recovery on future income tax of $171,880, resulting primarily from the capitalization of the interest on the loan for tax purposes. The company recorded a loss on disposal of assets of $24,115. Interest income of $62,233, for the year ended December 31, 2005, (2004 -$181,834) 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	4th Quarter Dec 31, 2005	3rd Quarter Sept 30, 2005	2nd Quarter June 30, 2005	1st Quarter Mar 31, 2005
INTEREST AND OTHER INCOME	$ 173,476	$ 8,655	$ 29,789	$ 22,193
NET LOSS	(280,406)	(1,065,864)	(1,242,729)	(564,145)
LOSS PER SHARE	$ (0.01)	$ (0.03)	$ (0.03)	$ (0.02)

FISCAL QUARTER - ENDED	4th Quarter Dec 31, 2004	3rd Quarter Sept 30, 2004	2nd Quarter June 30, 2004	1st Quarter Mar 31, 2004
INTEREST AND OTHER INCOME	$ 59,068	$ 64,101	$ 46,249	$ 12,416
NET LOSS	(758,123)	(401,449)	(2,928,197)	(1,127,809)
LOSS PER SHARE	$ (0.02)	$ (0.01)	$ (0.12)	$ (0.06)

An analysis of the quarterly results over the last eight quarters shows a significant variation between the quarters of 2005 and 2004. The primary reason is due to the stock-based compensation expense in the first two quarters of 2004, and in quarter three of 2005. The other significant variance is due to the finance costs and interest expense incurred in 2005 (2004- Nil) from the loan from Quest.

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 during the last 16 months 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.

In April 2005, the Company received gross proceeds of $7,302,322 through the issuance 6,310,000 flow-through shares and 992,322 non-flow through units, each priced at $1.00. The Company paid a total of $471,808 for commissions, legal and underwriting expenses. On December 30, 2005, the Company completed a $6,225,625 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. In connection with the private placement $333,522 was paid as commissions, legal and underwriting expenses. During the year ended December 31, 2005, the Company received net proceeds of $12,752,618 from the issuance of shares of which $5,924,701 remains in accounts receivable at December 31, 2005 and was collected on January 6, 2006. Quest's participation of $1,000,000 was applied towards the outstanding loan, reducing the loan to $3,000,000 at December 31, 2005. The proceeds of the financing were used to pay outstanding payables and pay down an additional $2,000,000 plus interest to Quest subsequent to December 31, 2005, leaving a balance of $1,000,000 outstanding on the loan on January 9, 2006. The remainder of the proceeds will be used to conduct the flow-testing of the three wells to enable the completion of a feasibility study; and for general working capital purposes.

The Company has continued the development of its geothermal project and invested a total of $30,728,270 to date. During the year ended December 31, 2005, the Company invested a total of $12,579,235 (of which, $1,733,704 is included in account payables and accrued liabilities) which represents the Company's largest use of funds.

At December 31, 2005, the Company had working capital of $941,867 (2004 - $1,930,292). The ongoing development of the project will require the Company to raise additional capital through equity financings.

Contractual Obligations:

Contractual Obligations:	Total	2006	2007	2008	2009 and thereafter
Long-term debt	$ 833,078	-	-	-	$ 833,078
Site reclamation and closure costs	533,770	-	132,918	-	1,281,870

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.

In connection with the Quest Capital loan, the Company granted Quest a first mortgage charge over its geothermal property and issued Quest a general security agreement over all assets of the Company On December 30, 2005, the Company modified the agreement with Quest Capital, to provide for the repayment of $3,000,000 of the principal amount of the loan and an 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 of the extension, Quest received 1,000,000 common shares of the Company.

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% to12% 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.

Disclosure controls and procedures: Management is responsible for the preparation and integrity of the financial statements and maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable. At December 31, 2005 we have concluded that our disclosure controls and procedures were sufficiently effective to provide reasonable assurance that material information relating to the Company and its consolidated subsidiary were made known to us by others with in those entities during that period.

Changes in Accounting Policy

Adoption of new accounting standards:

Effective January 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15") on a prospective basis. AcG-15 prescribes the application of consolidation principles for entities that meet the definition of a variable interest entity ("VIE"). An enterprise holding other than a voting interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary whereby it would absorb the majority of the VIE's expected losses, receive the majority of its expected residual returns, or both. The adoption of this new standard had no effect on the consolidated financial statements as management has determined the Company does not have any VIE's.

Related Party Transactions

During the year ended December 31, 2005, the Company paid management fees to the Chairman and President of the Company in the ordinary course of business amounting to $322,500 (2004 - $406,667), of which $90,000 (2004 - $87,500) is included in geothermal property costs. During the year ended December 31, 2005, $35,000 (2004 - $70,000) in consulting fees were paid to an officer of the Company and $20,578 (2004 - $25,632) in advisory fees were paid to a director of the Company.

Financial Instruments

The carrying value of the Company's cash, restricted cash, amounts receivable, deposits and accounts payable and accrued liabilities and short term debt 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 amounts due to Crew Development Corporation are not readily determinable due to the absence of a market for such instruments. 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, 2005, there were 87,106,875 common shares outstanding. A total of 52,666,114 share purchase warrants, 5,249,148 Agents options and 1,980,000 stock options were also outstanding, which are described in detail in notes 10(b), 10(f) and 10(h) to the audited financial statements.

As at April 18, 2006, the Company's outstanding share data was as follows:

Common shares outstanding: 88,106,875

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.

Stock options: 7,110,000

Agent's options: 5,249,148

Risks and Uncertainties

Geothermal resource exploration and development involves a high degree of risk. 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 the South Meager Project.

Outlook

The longer-term outlook for the Company continues to be dependent on the successful results from the three production-size wells. Upon completion of drilling and testing the three production-size wells the Company will proceed with the finalization of the feasibility study. It is the Company's intention to proceed to the project design and financing stage, with the objective of constructing the plant facilities, leading to commercial production by 2009. Alternatively, upon completion of the feasibility study, the Company may seek an industry partner to jointly fund, develop and operate the project, if that course of action is deemed more beneficial to shareholders.

Additional Information

Additional information relating to the Company, including its Annual Audited Financial Statements are available on SEDAR at www.sedar.com

This Management's Discussion & Analysis contains certain forward-looking statements. All statements, other than statements of historical fact, included herein, including without limitation, statements regarding the future plans and objectives of the Company are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove accurate, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed in Company documents filed from time to time with the regulatory authorities and on Sedar.

Consolidated Financial Statements
(Expressed in Canadian dollars)

WESTERN GEOPOWER CORP.

Years ended December 31, 2005 and 2004

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Western GeoPower Corp. as at December 31, 2005 and 2004 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, 2005 and 2004 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 31, 2006

WESTERN GEOPOWER CORP.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2005 and 2004

		2005		2004
Assets				
Current assets:				
Cash and short-term investments (note 3)	$	107,417	$	5,082,484
Amounts receivable (note 10(b)(*iv*))		6,035,513		711,762
Prepaid expenses and deposits		96,230		130,751
		6,239,160		5,924,997
Equipment (note 4)		240,389		247,679
Geothermal property (note 5)		30,728,270		17,994,502
Reclamation deposit (note 5)		150,000		150,000
Deferred finance fee (note 6 and 15)		150,000		-
	$	37,507,819	$	24,317,178
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	2,297,293	$	3,994,705
Short term debt (note 6)		3,000,000		-
		5,297,293		3,994,705
Long term debt (note 7)		833,078		833,078
Provision for site reclamation and closure costs (note 9)		533,770		445,941
Future income taxes (note 12)		3,586,897		598,311
		10,251,038		5,872,035
Shareholders' equity:				
Share capital (note 10)		33,926,741		22,380,159
Contributed surplus (note 11)		5,405,958		4,987,758
Deficit		(12,075,918)		(8,922,774)
		27,256,781		18,445,143
	$	37,507,819	$	24,317,178

Nature of operations (note 1)
Commitments and contingencies (notes 3, 5, 6, 7, 9 and 10)
Subsequent events (note 6, 10(b)(*iv*) and 15)

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, 2005 and 2004

	2005	2004
Expenses:		
Advertising and promotion	$ 342,135	$ 591,627
Amortization and accretion	69,094	48,278
Consulting and advisory fees	130,396	169,590
General and administrative	189,005	325,009
Directors' fees (note 8)	25,000	30,000
Finance costs	752,104	-
Interest and bank charges	441,096	9,065
Management fees (note 8)	232,500	319,167
Professional fees	108,054	216,941
Regulatory fees, transfer agents and shareholder communications	100,443	134,923
Rent	25,508	24,568
Salaries	497,691	457,523
Stock-based compensation (note 10(f))	359,578	2,773,342
Travel and related	90,538	297,379
Loss on disposal of assets	24,115	-
Loss before the undernoted	(3,387,257)	(5,397,412)
Interest income	62,233	181,834
Future income tax recovery	171,880	-
Loss for the year	(3,153,144)	(5,215,578)
Deficit, beginning of year	(8,922,774)	(3,707,196)
Deficit, end of year	$ (12,075,918)	$ (8,922,774)
Basic and diluted loss per share (note 2(g))	$ (0.09)	$ (0.21)
Weighted average number of shares outstanding	33,735,048	24,887,439

See accompanying notes to the consolidated financial statements.

WESTERN GEOPOWER CORP.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Loss for the year	$ (3,153,144)	$ (5,215,578)
Items not involving cash:		
Amortization and accretion	69,094	48,278
Amortization of deferred finance costs	752,104	-
Loss on disposal of assets	24,115	-
Stock-based compensation	359,578	2,773,342
Future income tax recovery	(171,880)	-
Changes in non-cash operating working capital:		
Amounts receivable	600,950	(692,903)
Prepaid expenses and deposits	34,521	(122,553)
Accounts payable and accrued liabilities	241,834	(364,065)
	(1,242,828)	(3,573,479)
Investments:		
Geothermal property costs, net of accounts payable and accrued liabilities	(14,478,480)	(10,604,312)
Purchase of equipment	(137,617)	(255,859)
Proceeds on disposal of equipment	55,941	-
Restricted cash (applied)	2,000,000	(2,000,000)
	(12,560,156)	(12,860,171)
Financing:		
Cash proceeds from issuance of share capital, net of issuance costs	6,827,917	15,289,395
Receipt of share subscriptions held in trust	-	60,000
Proceeds on short term loan	4,000,000	-
	10,827,917	15,349,395
Decrease in cash and short-term investments	(2,975,067)	(1,084,255)
Cash and short-term investments, beginning of year	3,082,484	4,166,739
Cash and short-term investments, end of year	$ 107,417	$ 3,082,484
Supplementary cash flow information:		
Income taxes paid	$ -	$ -
Interest paid	309,222	433
Interest received	60,771	180,665
Non-cash financing and investing activities:		
Shares issued for previous advances on share subscriptions	-	361,800
Fair value of stock options transferred to share capital from contributed surplus on exercise of options	-	12,000
Stock-based compensation capitalized to geothermal property	58,622	369,119
Future income taxes on stock-based compensation and capital asset amortization capitalized to geothermal property	52,326	213,768
Amortization of equipment capitalized to geothermal property	42,410	17,248
Site reclamation and closure costs capitalized to geothermal property	41,176	182,649
Geothermal property costs included in accounts payable and accrued liabilities	1,733,704	3,672,949
Reduction of short term loan by way of issuing 6,666,667 common shares (note 10(b)(*iv*))	1,000,000	-
Shares allotted for short term loan extension financing fee (note 6 and 15)	150,000	-
Shares issued as consideration for financing fees	752,104	-

See accompanying notes to the consolidated financial statements.

(Expressed in Canadian dollars)

1. Nature of operations:

Western GeoPower Corp. (the "Company") is incorporated under the laws of British Columbia. The Company amended its Articles on June 21, 2005, to continue under the Business Corporations Act.

The Company is in the process of developing the South Meager Geothermal Project, held under a geothermal lease issued for the commercial production of electricity, and has not yet determined the economic viability of the project. The project is located approximately 170 km north of Vancouver, Canada. The underlying value of the geothermal property and the recoverability of the related deferred costs is entirely dependent on the existence of an economic project and the Company's ability to obtain the necessary financing to complete development, to achieve future profitable production and to secure and maintain the appropriate permits, rights and beneficial interest in the property.

These financial statements have been prepared on the basis that the Company will continue as a going concern. At December 31, 2005, the Company had working capital of $941,867. 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 subsidiary, Meager Creek Development Corporation. All material intercompany transactions and balances have been eliminated on consolidation.

(b) Reclamation deposit:

The reclamation deposits are recorded at cost.

(c) 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%

2. Significant accounting policies (continued):

(d) Geothermal property:

All expenditures related to the acquisition and exploration of the geothermal property are capitalized until either commercial production is established, the property is abandoned or the property 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.

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 property represents costs incurred to date and does not necessarily reflect present or future values.

(e) Asset retirement obligations:

Under CICA's Handbook Section 3110, "*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. 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.

(f) 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.

(g) 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, so there is no difference between basic and diluted loss per common share.

2. Significant accounting policies (continued):

(h) Financial instruments:

The carrying value of the Company's cash, restricted cash, amounts receivable, deposits accounts payable and accrued liabilities and short-term debt 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 risks arising from its financial instruments.

(i) 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.

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

The Company has a stock option plan that is described in note 10(e). The Company records all stock-based payments granted on or after January 1, 2002 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.

(k) 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 the date the agreement to issue the shares was reached.

(l) 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.

2. Significant accounting policies (continued):

(m) 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.

(n) Flow-through shares:

The Company finances a portion of its exploration program with flow-through common share issuances. Income tax deductions relating to these expenditures are claimable only by the investors. Net proceeds from common shares issued pursuant to flow-through financings are credited to capital stock. Recording these expenditures for accounting purposes gives rise to taxable temporary differences if such expenditures meet the definition of a qualified expenditure pursuant to the Income Tax Act (Canada) and are renounced to the investor. On the date that the Company renounces flow-through expenditures to the holder of the flow-through common shares and whereby the Company has sufficient available tax losses or pools of tax deductions, a portion of the Company’s future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, is recorded as a recovery of income taxes in the statement of operations as long as the taxable temporary difference is expected to reverse.

(o) Adoption of new accounting standards:

Effective January 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline 15, “*Consolidation of Variable Interest Entities*” (“AcG-15”) on a prospective basis. AcG-15 prescribes the application of consolidation principles for entities that meet the definition of a variable interest entity (“VIE”). An enterprise holding other than a voting interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary whereby it would absorb the majority of the VIE’s expected losses, receive the majority of its expected residual returns, or both. The adoption of this new standard had no effect on the consolidated financial statements as management has determined the Company does not have any VIE’s.

3. Restricted cash:

During 2004, the Company entered into an agreement with a drilling contractor whereby the Company granted the contractor a $2,000,000 letter of credit as guarantee of payment to the contractor for services to be rendered. The Company pledged a $2,000,000 term deposit as security for this letter of credit. During the year ended December 31, 2005, the contractor exercised the letter of credit and the amount was applied to current billings. No letter of credit is outstanding at December 31, 2005.

(Expressed in Canadian dollars)

4. Equipment:

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
	$ 326,718	$ 86,329	$ 240,389

2004	Cost	Accumulated amortization	Net book value
Furniture and fixtures	$ 29,237	$ 5,219	$ 24,018
Computer equipment	58,210	13,900	44,310
Camp and field equipment	165,823	11,005	154,818
Vehicles	28,863	4,330	24,533
	$ 282,133	$ 34,454	$ 247,679

5. Geothermal property:

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. 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.

(Expressed in Canadian dollars)

5. Geothermal property (continued):

Expenditures incurred on the geothermal property for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
Balance, beginning of year:	$ 17,994,502	$ 2,934,457
Costs incurred during the year:		
Lease permits and occupancy	43,045	42,670
Project management	257,869	279,288
Camp office and administration	276,734	296,282
Well design and drilling program	-	60,076
Resource delineation	4,921	31,843
Drilling and testing	11,588,380	11,286,415
Drill site construction and expansion	13,072	775,437
New road construction and upgrade	-	783,167
Road maintenance and snow removal	165,069	207,125
Community stakeholder relations	134,449	77,306
Environmental review	98,105	454,900
Stock-based compensation (note 10(f))	58,622	369,119
Future income taxes on stock-based compensation and capital asset amortization	52,326	213,768
Provision for site reclamation and closure costs (note 9)	41,176	182,649
	12,733,768	15,060,045
Balance, end of year	$ 30,728,270	$ 17,994,502

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. A total of 1.25% of this royalty is payable to a company controlled by the family of a former director of the Company.

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.

The required deposit under the Act is supported by a term deposit held by the Company in the amount of $150,000. The Company recorded an increase of $41,176 for the year ended December 31, 2005 (2004 - $182,649) to the provision for site reclamation and closure costs to reflect the additional estimated future costs as a result of drilling in 2005 (note 9).

6. 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 10(b)(*iii*)). In consideration of the facility, Quest received 436,363 common shares of the Company (note 10(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 377,992 common shares of the Company. 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 (2004 - nil). In addition the Company recorded interest expense paid on the loan in the amount of $430,091 (2004 - nil).

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 (note10(b)(*iv*)), 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 a non-refundable bonus in the amount of $150,000 payable in the form of 1,000,000 common shares.

On December 30, 2005, the Company issued 6,666,667 Units to Quest Capital in the financing at $0.15 for cash 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 raised from the December 30, 2005 financing.

In connection with the standby credit facility, the Company granted Quest a first mortgage charge over its geothermal property, pledged all shares of Meager Creek Development Corporation and issued Quest a general security agreement over all assets of the Company.

7. Long term debt:

Pursuant to a share purchase agreement dated September 3, 2003, Crew Development Corporation (“Crew”), the Company’s controlling shareholder at that time, sold the common shares of the Company that it held, to the Company’s president and director, and cancelled debt owed by the Company to Crew in the amount of $557,647 (the “Cancelled Debt”). The Cancelled Debt consisted of promissory notes bearing interest at 8% which were due on demand, and working capital advances and reimbursement of administrative expenses charged to the Company by Crew, which were non-interest bearing and due on demand. Because this was a transaction with the Company’s controlling shareholder, the Cancelled Debt has been recorded as contributed surplus. Crew also agreed to defer payment to December 31, 2011 of additional debt owed to Crew by the Company’s subsidiary in the amount of $833,078 (the “Additional Debt”). Interest, which is to be calculated at the Royal Bank of Canada’s prime rate, will only accrue on the Additional 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 geothermal property, or December 31, 2007. At the option of the Company, earlier payment is permitted.

(Expressed in Canadian dollars)

8. Related party transactions:

In addition to related party transactions disclosed elsewhere in these financial statements, the following is a summary of amounts charged by officers, directors and by companies controlled by directors:

	2005	2004
Management fees (a)	$ 322,500	$ 406,667
Consulting fees (b)	55,578	95,632
Directors' fees	25,000	30,000

(a) $90,000 (2004 - $87,500) of management fees is included in geothermal property costs; and

(b) $35,000 (2004 - $70,000) in consulting fees were paid to an officer of the Company and $20,578 (2004 - $25,632) in advisory fees were paid to a director of the Company.

Included in the accounts payables and accrued liabilities at December 31, 2005 are amounts payable for management fees in the amount of $52,500, consulting fees in the amount of $8,430, and director's fees in the amount of $22,000. 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.

9. Provision for site reclamation and closure costs:

	2005	2004
Balance, beginning of year	$ 445,941	$ 231,055
Additional liabilities incurred	41,176	182,649
Accretion expense	46,653	32,237
Balance, end of year	$ 533,770	$ 445,941

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. The estimate obligation was based on undiscounted estimated cash flows required to settle the obligation.

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 of which $132,918 is to be expended by December 31, 2007, a discount rate of 10% to 12% and inflation factor of 2.0%.

(Expressed in Canadian dollars)

10. Share capital:

(a) Authorized:

Unlimited common shares without par value.

During the year ended December 31, 2005, the Company increased the authorized share capital from 300,000,000 to unlimited as approved by the shareholders at the Annual General Meeting held June 9, 2005.

(b) Issued and to be issued:

	Number of shares	Amount
Balance, December 31, 2003	17,947,660	$ 7,041,507
Receipt of subscriptions held in trust	-	60,000
Issued for cash on private placement, net of issuance costs (note 10(b)(*i*))	1,643,833	1,877,596
Issued for cash on private placement, net of issuance costs (note 10(b)(*ii*))	8,108,108	13,761,599
Issued for cash on exercise of stock options (note 10(e))	10,000	24,000
Future income tax effect of renouncing flow through share proceeds expended (note 10(c))	-	(384,543)
Balance, December 31, 2004	27,709,601	22,380,159
Issued for cash on private placement, net of issuance costs (note10(b)(*iii*))	7,302,322	6,830,515
Issued as compensation for private placement, net of issuance costs (note 10(b)(*iii*))	441,700	-
Issued for cash on private placement, net of issuance costs (note 10(b)(*iv*))	48,370,834	6,922,103
Issued as compensation for private placement, (note 10(b)(*iv*))	2,468,133	-
Issued in consideration of fees for short term debt (note 6)	814,285	752,104
Future income tax effect of renouncing flow-through share proceeds expended (note 10(c))	-	(3,108,140)
Issued, December 31, 2005	87,106,875	33,776,741
Allotment to be issued pursuant to finance fee on short term loan extension (notes 6 and 15)	1,000,000	150,000
Balance, December 31, 2005	88,106,875	$ 33,926,741

10. Share capital (continued):

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

During the year ended December 31, 2004, the Company completed two private placements as follows:

(*i*) On January 14, 2004, the Company completed the second tranche of a non-brokered private placement of 1,643,833 units at $1.20 per unit for gross proceeds of $1,972,600. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitled the holder to purchase an additional common share at $1.80 for a one-year period. In connection with the private placement, finders' fees of $95,004 were paid. Subsequent to December 31, 2004, the 1,643,833 warrants issued with respect to this offering expired unexercised.

(*ii*) On May 4, 2004, the Company completed a $15,000,000 brokered private placement. The Company issued 4,927,783 flow-through shares and 3,180,325 non-flow through units, each priced at $1.85. Each unit consisted of one common share and one warrant to purchase one additional common share at an exercise price of $2.50 per share until May 4, 2007. The warrants will have an accelerator provision such that if the closing price of the Company's common shares exceeds $3.00 for 20 consecutive days, the Company may issue a press release indicating the warrants expiry date will become the date 20 days following the date of issuance of the press release. In connection with this private placement, $1,104,430 was paid as commissions to the agents, together with compensation options entitling the agents to acquire 567,568 shares at $1.85 per share exercisable until May 4, 2007. The fair value of these compensation options was estimated to be $958,972 and has been included on a net basis in share capital.

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

(*iii*) 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. The flow-through shares and 690,000 of the units are subject to a hold period expiring August 23, 2005 and 302,322 units are subject to a hold period expiring August 6, 2005. 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 $65,963 was paid as commissions to sub-agents, $405,845 was paid for legal and underwriting expenses and the agent received 441,700 shares as compensation for the sale of flow-through shares. In addition, agents options to purchase an aggregate of 441,700 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.

10. Share capital (continued):

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

(*iv*) On December 30, 2005, the Company closed a $6,255,625 brokered private placement and a $1,000,000 financing with Quest Capital 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 and are subject to a hold period expiring May 1, 2006. 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 at a price of $0.15 per unit as compensation. In addition, agents options to purchase an aggregate of 4,170,417 Units priced at $0.15 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 $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 6). 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 and deposited on January 6, 2006.

(c) Flow-through shares:

During the year ended December 31, 2005, the Company issued 8,655,500 (2004 - 4,927,783) flow-through shares for gross proceeds of $6,661,825 (2004 - $9,116,399), of which $6,310,000 (2004 - $9,109,437) 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. In 2004, the Company renounced the $1,122,240 of flow-through share proceeds received in 2003 and expended in 2004, and recorded a future income tax liability of $384,543 related thereto.

(d) Escrow shares:

During the year ended December 31, 2004, the Company received regulatory approval for the release of 9,906,297 shares held in escrow at December 31, 2003. As a result, there are no shares remaining in escrow at December 31, 2004 or 2005.

(Expressed in Canadian dollars)

10. Share capital (continued):

(e) 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, 2005, 315,000 of previously granted options to employees and consultants were re-priced to $0.35. In addition 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.

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.

(Expressed in Canadian dollars)

10. Share capital (continued):

(e) Stock options (continued):

The continuity of the Company's stock options for the year ended December 31, 2004, all of which were exercisable at December 31, 2004, is as follows:

Exercise price	Expiry date	Balance December 31, 2003	Granted	Exercised	Forfeited	Balance December 31, 2004
$1.20	October 17, 2008	1,050,000	-	(10,000)	-	1,040,000
$1.20	November 8, 2008	75,000	-	-	-	75,000
$1.20	December 9, 2008	150,000	-	-	-	150,000
$1.65	January 20, 2009	-	250,000	-	(75,000)	175,000
$1.65	February 6, 2009	-	100,000	-	-	100,000
$1.70	March 16, 2009	-	25,000	-	-	25,000
$1.85	May 4, 2009	-	1,195,000	-	-	1,195,000
$1.85	May 4, 2007 (*ii*)	-	567,568	-	-	567,568
		1,275,000	2,137,568	(10,000)	(75,000)	3,327,568
Weighted average exercise price		$1.20	$ 1.82	$1.20	$1.65	$1.59
Contractual weighted average remaining life (years)		4.81				3.78

(*ii*) 567,568 of the new grants were agents options granted to the agents for the private placement in 2004.

(f) Stock-based compensation:

The weighted average fair value of options granted during 2005, being $0.25 (2004 - $1.82) per option, was estimated using the Black-Scholes option pricing model with the following assumptions; risk free interest rate of 3.43% (2004 -3.66%); expected dividend yield of 0% (2004 - 0%); volatility factor of 73.73% (2004 - 182%) and an expected life of 5 years (2004 - 5 years). Under this method of calculation, the fair value of all options granted during 2005 amounted to $377,716 (2004 -$2,699,861), of which $45,371 (2004 - $369,119) has been capitalized as geothermal property cost and $332,345 (2004 - $2,330,742) has been reflected in the statement of operations. An additional $442,600 was included as stock-based compensation expense during 2004 for the portion of the 2003 options granted that vested in 2004.

The weighted average fair value of options repriced during 2005, being $0.19 (2004 - 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 2004.

(Expressed in Canadian dollars)

10. Share capital (continued):

(g) Share purchase warrants:

At December 31, 2005, the Company had a total of 52,666,114 share purchase warrants outstanding comprised of:

- 3,180,325 warrants at an exercise price of $2.50 per share and an expiry date of May 4, 2007
- 302,322 warrants at an exercise price of $1.20 per share and an expiry date of April 5, 2008. 690,000 warrants at an exercise price of $1.20 per share and an expiry date of April 22, 2008
- 48,493,467 warrants at an exercise price of $0.25 per share and an expiry date of December 30, 2008

At December 31, 2004, the Company had 3,180,325 share purchase warrants outstanding at an exercise price of $2.50 per share and an expiry date of May 4, 2007

11. Contributed surplus:

Balance, December 31, 2003	$	1,549,897
Adjustment on adoption of new accounting standard for stock-based compensation (note 2(j))		307,400
Fiscal 2003 stock-based compensation that vested in 2004 (note 10(f))		442,600
Fiscal 2004 stock-based compensation (note 10(f))		2,699,861
Stock options exercised, credited to share capital		(12,000)
Balance, December 31, 2004		4,987,758
Fiscal 2005 stock-based compensation (note 10(f))		418,200
Balance, December 31, 2005	$	5,405,958

12. Income taxes:

The difference between the Company's actual tax recovery of $171,880 (2004 - nil) 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 and stock-based compensation not deductible for tax purposes.

(Expressed in Canadian dollars)

12. Income taxes (continued):

The significant components of the Company's future income tax assets and liabilities at December 31, 2005 and 2004 are as follows:

	2005	2004
Future tax assets:		
Non-capital loss carry forwards	$ 1,909,000	$ 1,146,000
Geothermal property	86,000	-
Share issuance costs and other	713,000	412,000
Total future tax assets	2,708,000	1,558,000
Valuation allowance	(2,708,000)	(1,558,000)
Net future tax assets	-	-
Future tax liabilities:		
Geothermal property	3,586,897	598,311
Net future tax liabilities	$ 3,586,897	$ 598,311

At December 31, 2005, the Company has available losses for tax purposes in Canada of approximately $5,600,000 which can be applied to reduce taxable income until 2012.

13. Segmented information:

The Company is engaged in one business and geographic segment - the development of a geothermal property for the commercial production of electricity in British Columbia, Canada.

14. Commitments:

The Company leases its office space for its corporate office and has minimum commitments related thereto of $24,000 annually until February 27, 2006, after which time, the premises lease is on a month-to-month basis.

15. Subsequent events:

(a) On January 9, 2006, the Company repaid an additional $2,000,000 of the loan payable to Quest (note 6) plus $121,242 of interest, leaving a balance outstanding of $1,000,000, which is due on December 15, 2006. On January 17, 2006, in consideration for the extension of the term of the loan in 2005, the Company issued 1,000,000 common shares to Quest as a non-refundable bonus in the amount of $150,000.

(b) On February 17, 2006, the Company granted 5,130,000 stock options to directors, officers and employees at the market close on February 17, 2006 of $0.22 per share for a period of five years under the stock option plan.

WESTERN GEOPOWER CORP.

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