Western GeoPower Corp.

Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended December 31, 2004 and 2003

Management Discussion and Analysis

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Western GeoPower Corp. as at December 31, 2004 and 2003 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, 2004 and 2003 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

Chartered Accountants

Vancouver, Canada

April 1, 2005, except note 14, which is as of April 26, 2005

WESTERN GEOPOWER CORP.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2004 and 2003

	2004	2003 (restated-note 2(e))
Assets		
Current assets:		
Cash and short-term investments (note 3)	$ 5,082,484	$ 4,166,739
Amounts receivable	711,762	18,859
Prepaid expenses and deposits	130,751	8,198
	5,924,997	4,193,796
Equipment (note 4)	247,679	25,109
Geothermal property (note 5)	17,994,502	2,934,457
Reclamation deposit (note 5)	150,000	150,000
	$ 24,317,178	$ 7,303,362
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,994,705	$ 685,821
Long term debt (note 6)	833,078	833,078
Provision for site reclamation and closure costs (note 8)	445,941	231,055
Future income taxes (note 11)	598,311	-
	5,872,035	1,794,954
Shareholders' equity:		
Share capital (note 9)	22,380,159	7,041,507
Advances on share subscriptions (note 9(d))	-	361,800
Contributed surplus (note 10)	4,987,758	1,549,897
Deficit	(8,922,774)	(3,399,796)
	18,445,143	5,553,408
	$ 24,317,178	$ 7,303,362

Nature of operations (note 1)
Commitments and contingencies (notes 3, 5, 6, 8, 9 and 13)
Subsequent events (notes 9 and 14)

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board:

________________ Director
KENNETH MACLEOD

________________ Director
JOHN COPELAND

WESTERN GEOPOWER CORP.

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

Years ended December 31, 2004 and 2003

	2004	2003 (restated-note 2(e))
Expenses:		
Advertising and promotion	$ 591,627	$ 29,471
Amortization and accretion	48,278	25,923
Consulting and advisory fees	169,590	50,000
General and administrative	325,009	66,267
Directors' fees (note 7)	30,000	10,500
Interest and bank charges, net	9,065	9,388
Management fees (note 7)	319,167	243,750
Professional fees	216,941	105,657
Regulatory fees, transfer agents and shareholder communications	134,923	51,824
Rent	24,568	22,893
Salaries	457,523	17,081
Stock-based compensation (note 9(g))	2,773,342	992,250
Travel and related	297,379	90,791
Loss before the undernoted	(5,397,412)	(1,715,795)
Interest income	181,834	1,339
Loss for the year	(5,215,578)	(1,714,456)
Deficit, beginning of year:		
As previously reported	(3,228,561)	(1,535,110)
Adjustment on adoption of new accounting standard for asset retirement obligations (note 2(e))	(171,235)	(150,230)
As restated	(3,399,796)	(1,685,340)
Adjustment on adoption of new accounting standard for stock-based compensation (note 2(j))	(307,400)	-
Deficit, end of year	$ (8,922,774)	$ (3,399,796)
Basic and diluted loss per share	$ (0.21)	$ (0.13)
Weighted average number of shares outstanding	24,887,439	13,680,112

See accompanying notes to the consolidated financial statements.

WESTERN GEOPOWER CORP.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2004 and 2003

	2004	2003 (restated – note 2(e))
Cash provided by (used in):		
Operations:		
Loss for the year	$ (5,215,578)	$ (1,714,456)
Items not involving cash:		
Amortization and accretion	48,278	25,923
Stock-based compensation	2,773,342	992,250
Changes in non-cash operating working capital:		
Amounts receivable	(692,903)	(6,258)
Prepaid expenses and deposits	(122,553)	(7,907)
Accounts payable and accrued liabilities	(364,065)	116,127
	(3,573,479)	(594,321)
Investments:		
Geothermal property costs, net of accounts payable and accrued liabilities	(10,604,312)	(85,358)
Purchase of equipment	(255,859)	(24,830)
Restricted cash	(2,000,000)	-
	(12,860,171)	(110,188)
Financing:		
Issuance of share capital, net of issuance costs	15,289,395	4,646,266
Receipt of share subscriptions held in trust	60,000	-
Advances on share subscriptions	-	361,800
Due to related parties	-	(213,925)
Advances from Crew Development Corporation	-	76,959
	15,349,395	4,871,100
(Decrease) increase in cash	(1,084,255)	4,166,591
Cash, beginning of year	4,166,739	148
Cash, end of year	$ 3,082,484	$ 4,166,739

Cash	$ 3,082,484	$ 4,166,739
Restricted cash (note 3)	2,000,000	-
Cash and short-term investments	$ 5,082,484	$ 4,166,739

WESTERN GEOPOWER CORP.

Consolidated Statements of Cash Flows (continued)
(Expressed in Canadian dollars)

Years ended December 31, 2004 and 2003

	2004	2003 (restated – note 2(e))
Supplementary cash flow information:		
Income taxes paid	$ -	$ -
Interest paid	433	25,911
Interest received	180,665	1,339
Non-cash financing and investing activities:		
Shares issued for previous advances on share subscriptions	361,800	-
Shares issued for settlement of accounts payable	-	7,501
Share subscriptions held in trust	-	60,000
Forgiveness of accounts payable related to geothermal property costs	-	24,287
Forgiveness of amounts due to Crew Development Corporation capitalized to shareholders' equity	-	557,647
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	369,119	-
Future income taxes on stock-based compensation capitalized to geothermal property	213,768	-
Amortization of equipment capitalized to geothermal property	17,248	-
Site reclamation and closure costs capitalized to geothermal property	182,649	-
Geothermal property costs included in accounts payable and accrued liabilities	3,672,949	-

See accompanying notes to the consolidated financial statements

1. Nature of operations:

Western GeoPower Corp. (the “Company”) is incorporated under the laws of British Columbia. On October 9, 2003, in connection with a change in control of the Company, there was a consolidation of the Company’s share capital on a ten old common shares for one new common share basis (note 9(a)). All share-related disclosures in these financial statements prior to the share consolidation have been restated to the equivalent number of post-consolidation shares.

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, 2004, the Company had working capital of $1,930,292, which although expected to be sufficient to allow the Company to fund its operations for the next fiscal year, will not be sufficient to meet its planned business objectives. Management recognizes that the Company will need to generate additional financial resources in order to meet its planned business objectives (note 14). 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:

Reclamation deposits are recorded at cost.

(Expressed in Canadian dollars)

2. Significant accounting policies (continued):

(c) Equipment:

Equipment is carried at cost less accumulated amortization. Effective January 1, 2004, amortization is provided on a declining balance basis over the estimated useful lives of the assets using the following rates:

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

Prior to 2004, amortization was provided on a straight-line basis over three years. As a result of the insignificant amount of equipment prior to 2004, the effect of this change has been determined to not be material to require restatement.

(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:

Effective January 1, 2004, the Company retroactively adopted the new provisions of the CICA's Handbook section 3110, "*Asset Retirement Obligations".* Under this standard, 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, assuming a credit adjusted risk-free discount rate of 10% and an inflation factor of 2.0%. 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. Prior year financial statements have been restated to apply the provisions of the new accounting policy for site reclamation and closure costs.

Prior to the adoption of this new standard, the Company accrued site reclamation as closure obligations over the life of the property commencing once an estimate of the obligation was determined. On adoption of the new standard at January 1, 2004, the Company increased geothermal property by $59,820, set up a liability for site reclamation and closure costs of $231,055 and recorded a $150,230 increase to the deficit, all as at December 31, 2003. The loss for the year ended December 31, 2003 has been increased by $21,005 as a result of this

2. Significant accounting policies (continued):

(e) Asset retirement obligations (continued):

change. Under the standard, 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.

(h) Financial instruments:

The carrying value of the Company's cash, restricted 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 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

2. Significant accounting policies (continued):

(h) Financial instruments (continued):

(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:

The Company has a stock-based compensation plan which is described in note 9(f). Effective January 1, 2004, the Company adopted the revised provisions of the CICA Handbook Section 3870, "*Stock-based Compensation and Other Stock-based Payments*", which now requires companies to adopt the fair value based method for all stock-based awards granted on or after January 1, 2004. As a result, the Company is required to expense the fair value of stock options granted to employees, directors, and non-employees over the vesting period. Previously, the Company was only required to disclose the pro forma effect of stock options granted to employees in the notes to the financial statements and account for such options using the settlement method. As permitted, the Company has retroactively applied the fair value based method to all employee stock options granted on or after January 1, 2002, without restatement of prior periods. An adjustment has been made to the opening deficit of the current period to reflect the cumulative effect of the change in prior periods, consistent with that required under the retroactive restatement method.

During the year ended December 31, 2003, the fair value of the options granted to non-employees of $992,500 were recorded in the statement of operations. No compensation costs were recorded in the statement of operations for options granted to employees during the year ended December 31, 2003. The Company did not grant any options during the year ended December 31, 2002. The fair value of the options granted to employees during December 31, 2003, that would be required to be expensed under the new provision of CICA Handbook Section 3870, amounted to $307,400. The retroactive adoption of the changes discussed above resulted in an increase to opening deficit of $307,400 and a corresponding increase to the contributed surplus as at January 1, 2004, with respect to stock options granted in 2003.

(k) Share capital:

The Company records the proceeds from 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,

(Expressed in Canadian dollars)

2. Significant accounting policies (continued):

(l) Use of estimates (continued):

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.

(m) Comparative figures:

Certain of the prior year's comparative figures have been reclassified to conform to the presentation adopted for the current year.

3. Restricted cash:

During 2004, the Company entered into an agreement with a drilling contractor whereby the Company granted the contractor a $2.0 million letter of credit as guarantee of payment for services to be rendered. The Company pledged a $2.0 million term deposit as security for this letter of credit.

4. Equipment:

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

2003	Cost	Accumulated amortization	Net book value
Furniture and fixtures	$ 15,892	$ 883	$ 15,009
Computer equipment	12,103	2,003	10,100
	$ 27,995	$ 2,886	$ 25,109

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

(Expressed in Canadian dollars)

5. Geothermal property (continued):

at Meager Creek, also expiring December 17, 2017. During the year ended December 31, 2003,the Company concluded an agreement with the British Columbia Ministry of Energy and Mines to expand the area under geothermal lease by 2,299 hectares. The total area now under lease 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.

Expenditures incurred on the geothermal property for the years ended December 31, 2004 and 2003 are as follows:

	2004	2003 (restated- note 2(e))
Balance, beginning of year:		
As previously reported:	$ 2,874,637	$ 2,813,566
Adjustment on adoption of new accounting standard for asset retirement obligations (note 2(e))	59,820	59,820
As restated:	2,934,457	2,873,386
Costs incurred (cost recoveries) during the year:		
Lease permits and occupancy	42,670	56,791
Project management	279,288	23,058
Camp office and administration	296,282	-
Well design and drilling program	60,076	-
Resource delineation	31,843	-
Drilling and testing	11,286,415	(24,287)
Drill site construction and expansion	775,437	-
New road construction and upgrade	783,167	-
Road maintenance and snow removal	207,125	-
Community stakeholder relations	77,306	2,047
Environmental review	454,900	-
Stock-based compensation (note 9(g))	369,119	-
Future income taxes on stock-based compensation	213,768	-
Provision for site reclamation and closure costs (note 8)	182,649	-
Other	-	3,462
	15,060,045	61,071
Balance, end of year	$ 17,994,502	$ 2,934,457

The Geothermal Act of British Columbia provides for an undefined royalty payable to the Crown, and 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 director of the Company.

(Expressed in Canadian dollars)

5. Geothermal property (continued):

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 $182,649 for the year ended December 31, 2004 (2003 - nil) to the provision for site reclamation and closure costs to reflect the additional estimated future costs as a result of drilling in 2004.

6. 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 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.

7. Due to related parties:

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:

	2004	2003
Management fees (a)	$ 406,667	$ 262,500
Consulting fees (b)	95,632	10,000
Directors' fees	30,000	10,500
Interest on promissory notes	-	25,872

(a) $87,500 (2003 - $18,750) of management fees is included in geothermal property costs; and

(b) $70,000 in consulting fees were paid to an officer of the Company and $25,632 (2003 - $10,000) in advisory fees were paid to a director of the Company.

(Expressed in Canadian dollars)

7. Due to related parties (continued):

During the year ended December 31, 2003, officers, directors, companies controlled by directors and Crew, advanced by way of promissory notes or other advances, a total of $774,958. The promissory notes bore interest at 8% per annum and the notes and other advances were due on demand. All notes and advances were repaid or cancelled (note 6) during the year ended December 31, 2003.

8. Provision for site reclamation and closure costs:

	2004	2003 (restated –note 2(e))
Balance, beginning of year	$ 231,055	$ 210,050
Liabilities incurred	182,649	-
Accretion expense	32,237	21,005
Balance, end of year	$ 445,941	$ 231,055

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 of $1,254,365 to be expended from 2007 to 2017 ($132,918 to be expended by 2007), a discount rate of 10% and inflation factor of 2.0%.

9. Share capital:

(a) Authorized:

300,000,000 common shares without par value.

During the year ended December 31, 2003, the Company consolidated its authorized and issued share capital on a ten-old-for-one-new basis, and subsequently increased its authorized share capital from 30,000,000 common shares without par value to 300,000,000 common shares without par value. All share-related amounts prior to the share consolidation have been restated to the equivalent number of post-consolidation shares.

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2002 (note 9(a))	13,582,459	$ 2,387,740
Shares issued for debt settlement	7,501	7,501
Issued for cash on private placements, net of issuance costs (note 9(b))	4,357,700	4,706,266

(Expressed in Canadian dollars)

9. Share capital (continued):

(b) Issued and outstanding (continued):

	Number of shares	Amount
Balance, December 31, 2003	17,947,660	7,101,507
Share subscriptions held in trust (note 9(b)(*ii*))	-	(60,000)
Balance, December 31, 2003	17,947,660	7,041,507
Receipt of subscriptions held in trust (note 9(b)(*ii*))	-	60,000
Issued for cash on private placement, net of issuance costs (note 9(b)(*iii*))	1,643,833	1,877,596
Issued for cash on private placement, net of issuance costs (note 9(b)(*iv*))	8,108,108	13,761,599
Issued for cash on exercise of stock options (note 9(f))	10,000	24,000
Future income tax effect of renouncing flow through share proceeds expended (note 9(c))	-	(384,543)
Balance, December 31, 2004	27,709,601	$ 22,380,159

During the year ended December 31, 2003, the Company completed two private placements as follows:

(i) On October 3, 2003, the Company completed a non-brokered private placement of 500,000 shares at $0.60 per share for gross proceeds of $300,000.

(ii) On December 31, 2003, the Company completed the first tranche of a non-brokered private placement of 935,200 flow-through shares at $1.20 per share and 2,922,500 units at $1.20 per unit for gross proceeds of $4,629,240. Each unit consisted of one common share and one share purchase warrant exercisable at $1.80 for a one-year period. On December 31, 2004, these share purchase warrants expired unexercised. In connection with the private placement, finders' fees of $222,974 were paid. As at December 31, 2003, $60,000 of the proceeds from the private placement were held in trust by a third party and had not been deposited in the Company's treasury. The proceeds were received by the Company in January 2004.

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

(iii) 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.

9. Share capital (continued):

(b) Issued and outstanding (continued):

(iv) 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.

(c) Flow-through shares:

During the year ended December 31, 2004, the Company issued 4,927,783 (2003 - 935,200) flow-through shares for gross proceeds of $9,116,399 (2003 - $1,122,240), of which $9,109,437 (2003 - $42,670) had been expended by December 31, 2004. 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 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) Advances on share subscriptions:

As at December 31, 2003, the Company had received advances on share subscriptions totaling $361,800 relating to the second tranche of the non-brokered private placement completed on December 31, 2003 (note 9(b)(*ii*)) for the issuance of 301,500 units. During the year ended December 31, 2004, these units were issued (note 9(b)*(iii))*.

(e) 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.

(f) 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

(Expressed in Canadian dollars)

9. Share capital (continued):

(f) Stock options (continued):

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.

The continuity of the Company's stock options for the year ended December 31, 2004, all of which are 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	-	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)		4.8				3.78

The continuity of the Company's stock options for the year ended December 31, 2003, of which 225,000 were exercisable as at December 31, 2003, is as follows:

Exercise price	Expiry date	Balance December 31, 2002	Granted	Exercised	Forfeited	Balance December 31, 2003
$1.20	October 17, 2008	-	1,050,000	-	-	1,050,000
$1.20	November 8, 2008	-	75,000	-	-	75,000
$1.20	December 9, 2008	-	150,000	-	-	150,000
		-	1,275,000	-	-	1,275,000
Weighted average exercise price		$ -	$ 1.20	$ -	$ -	$ 1.20
Contractual weighted average remaining life (years)		-				4.8

(Expressed in Canadian dollars)

9. Share capital (continued):

(g) Stock-based compensation:

The weighted average fair value of options granted during 2004, being $1.82 (2003 - $1.36) per option, was estimated using the Black-Scholes option pricing model with the following assumptions; risk free interest rate of 3.66% (2003 - 4.18%); expected dividend yield of 0% (2003 - 0%); volatility factor of 182% (2003 – 328%) and an expected life of 5 years (2003 - 5 years). Under this method of calculation, the fair value of all options granted during 2004 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 $442,600 was included as stock-based compensation expense during 2004 for the portion of the 2003 options granted that vested in 2004.

During the year ended December 31, 2003, the estimated fair value of options granted to non-employees of $992,500 was recorded in the statement of operations. The stock-based compensation related to the vested portion of employee grants of $307,400 is included in the statement of deficit (note 2(j)).

(h) Share purchase warrants:

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.

10. Contributed surplus:

	Amount
Balance, December 31, 2002	$ -
Cancelled debt (note 6)	557,647
Fiscal 2003 stock-based compensation (note 9(g))	992,250
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 9(g))	442,600
Fiscal 2004 stock-based compensation (note 9(g))	2,699,861
Stock options exercised, credited to share capital	(12,000)
Balance, December 31, 2004	$ 4,987,758

11. Income taxes:

The difference between the Company's actual tax recovery of nil (2003 - 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)

11. Income taxes (continued):

The significant components of the Company's future income tax assets and liabilities at December 31, 2004 and 2003 are as follows:

	2004	2003
Future tax assets:		
Non-capital loss carry forwards	$ 1,146,000	$ 48,000
Geothermal property	-	-
Share issuance costs and other	412,000	85,000
Total future tax assets	1,558,000	133,000
Valuation allowance	(1,558,000)	(133,000)
Net future tax assets	-	-
Future tax liabilities:		
Geothermal property	598,311	-
Net future tax liabilities	$ 598,311	$ -

At December 31, 2004, the Company has available losses for tax purposes in Canada of approximately $3,100,000 which can be applied to reduce taxable income until 2011.

12. 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.

13. 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.

14. Subsequent events:

(a) On February 4, 2005, the Company entered into a $4,000,000 standby 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 14 (b)). In consideration of the facility, Quest received 436,363 common shares of the Company. The loan of $4,000,000 is due October 4, 2005, and bears interest at a rate of 12% per annum, compounded monthly. The due date of the loan was subsequently extended to December 15, 2005 and in consideration for the extension of the loan, the Company issued 377,992 common shares of the Company. In connection with the standby facility, 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.

14. Subsequent events (continued):

(b) On April 5, 2005, the Company closed a $302,322 financing with Kaupthing ASA and Dundee, and on April 26, 2005, the Company closed a $7,000,000 financing with Dundee, 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, Dundee received 441,700 shares, which are subject to a hold period expiring August 23, 2005, as compensation for the sale of flow-through shares. In addition, compensation 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 compensation 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.

WESTERN GEOPOWER CORP.

Management's Discussion and Analysis
For the year ended December 31, 2004
(Expressed in Canadian dollars)

The following Management's Discussion and Analysis of Western GeoPower Corp., (the "Company") dated as at April 28, 2005, should be read in conjunction with the audited consolidated financial statements including the notes thereto for the years ended December 31, 2004 and 2003. These financial statements have been prepared in accordance with Canadian generally accepted accounting policies. Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis are expressed in Canadian dollars.

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 on the project to determine its economic viability. Upon drilling and testing of the confirmation wells, 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 the plant. The Company is a reporting issuer in British Columbia, Alberta, Ontario and Quebec and trades on the TSX Venture Exchange under the symbol WGP.

Overall performance

During December 2003 and January 2004, the Company raised gross proceeds of $6.6 million by issuing 5,501,533 common shares at a price of $1.20 per share and an additional gross proceeds of $15 million in May 2004, by issuing 8,108,108 common shares at a price of $1.85 per share. The proceeds of the offering were used to commence the two deep production size well technical program on the Company's South Meager Geothermal Energy Project, and for general working capital. During April 2005, the Company raised gross proceeds of $7.3 million by issuing 7,302,322 common shares at a price of $1.00 per share. The proceeds of the offering are being used to continue the technical program with the drilling of the third production-size well.

Project Update

MC-6: Completion Testing

The first production size well (MC-6) was completed in November 2004. MC-6 was drilled in a northeasterly direction to a depth of 2,662 meters and following initial air lifting, the well flowed unassisted for more than seven hours. A down-hole temperature and pressure survey commenced during the self-flow period showed a rising column of water in the well, demonstrating production of fluids from the formation. Temperature surveys taken over the test period indicated multiple deep permeable zones, notably over an interval from 1,950 meters to approximately 2,100 meters, and at 2,500 meters and 2,600 meters.

MC-7: Completion Testing

The second production size well (MC-7) was completed in February 2005. MC-7 was drilled in a northwesterly direction to a depth of 3,291 meters. The Company's independent consultants, GeothermEx Inc. coordinated the initial well testing for both wells. GeothermEx reported MC-7 well tests indicated high temperatures similar to MC-6. As with MC-6, MC-7 was substantially cooled during drilling by subsequent injection of cold water to displace the drilling mud and test permeability.

The two wells will be “flow-tested” and analyzed for production capability once their temperatures have stabilized. The injection of cold water and drilling mud during the drilling has the effect of substantially cooling the geothermal reservoir so full evaluation cannot commence until the wells return to normal temperatures.

Temperature and pressure surveys of wells MC-6 and MC-7 carried out in mid March 2005, demonstrated continued heating of both wells and several zones of permeability. The survey of MC-6 measured a maximum temperature of 258°C on bottom (2,632 meters), with a consistent increase of 3°C to 4°C from about 800 meters to total depth. The MC-7 survey recorded a maximum temperature of 243°C at 2,900 meters. It is anticipated that, when MC-7 has fully recovered its heat, the temperature profile will be similar to MC-6.

The results of the initial testing of MC-7, have demonstrated similar temperature characteristics to MC-6, and the substantial thermal recovery evidenced in MC-6 over the past two months, endorse the independent consultants’ support to continue with the drilling program.

MC-8: Continuation of the drilling program.

In order to maintain the resource development schedule and project timeline, the Company is proceeding with the third production size well, MC-8, which will be drilled to a projected target depth of 2,200 meters. Completion and initial testing of MC-8 is scheduled for June 2005.

The Company’s consultant, GeothermEx, Inc., recommended that flow testing of wells MC-6, 7 and 8 be conducted following the completion of drilling at MC-8. GeothermEx is currently preparing a comprehensive plan for the testing of the wells.

These wells and the ongoing environmental studies of the project site and proposed transmission line routes form part of a feasibility study to confirm the commercial viability. On confirmation of the project’s viability, the Company will proceed with government permitting, negotiation of power sales contracts and securing the balance of the estimated $341 million required (equity and debt on a 20/80 ratio) to develop the resource and construct an initial 100 megawatt electricity generating plant at the South Meager Geothermal Project.

The British Columbia government’s Environmental Assessment Office (EAO) has formally accepted the South Meager Project for review under the B.C. Environmental Assessment Act. Terms of Reference for the review have been drafted, environmental studies are being completed and public and First Nations consultations have commenced.

The South Meager Project has been initiated at an opportune time in the development of the British Columbia and North American energy markets. Under the B.C. Government’s New Energy Plan, all new generating capacity must come from Independent Power Producers, such as Western GeoPower.

BC Hydro, the B.C. Provincial Government-owned Corporation that provides over 80% of British Columbia’s energy requirements, forecasts the annual energy and peak demand for electricity over the next 20 years to rise by 18,755 gigawatt-hours (GWh) to a total 73,755 GWh – a 34% increase over current consumption. It has also stated that to meet this projected energy demand, an additional 1,200 MW of new generation will be required within the next decade, increasing to 4,092 MW by the year 2023. A major electrical power producer and exporter since the 1950’s, British Columbia has become a net importer of power over the past five years. The British Columbia Government has mandated that BC Hydro acquire further generation from Independent Power Producers and has targeted 50% of that power come from “green” sources such as geothermal.

In order to meet its capacity target within the context of government policy, BC Hydro has taken two immediate initiatives. One was to announce its intention to issue power purchase calls for 1,000 gigawatt hours per annum in each of the next two years. The second initiative was to issue a Request for Expressions of Interest (RFEI) to potential producers. Western GeoPower submitted a formal Expression of Interest to supply 100 MW of power from its South Meager Geothermal Project on completion and anticipated start-up in 2007.

Annual Financial Information

FOR THE YEARS ENDED DECEMBER 31	2004	2003	2002
FINANCIAL RESULTS			
INTEREST INCOME	$ 181,834	$ 1,339	$ 14,485
NET LOSS	(5,215,578)	(1,714,456)	(827,562)
LOSS PER SHARE (Basic and diluted)	$ (0.21)	$ (0.13)	$ (0.06)
FINANCIAL POSITION			
WORKING CAPITAL (DEFICIENCY)	$ 1,930,292	$ 3,507,975	$ (2,116,133)
GEOTHERMAL PROPERTY	17,994,502	2,934,457	2,813,566
TOTAL ASSETS	24,317,178	7,303,362	2,981,803
LONG-TERM LIABILITIES	1,877,330	1,064,133	-

Results of Operations

For the year ended December 31, 2004, the Company incurred a loss of $5,215,578 ($0.21 per share) compared to a loss of $1,714,456 ($0.13 per share) for the year ended December 31, 2003.

Summary Data:	Year ended December 31, 2004	Year ended December 31, 2003
Interest Income	$ 181,834	$ 1,339
Administrative expense	2,624,070	723,545
Stock-based compensation expense	2,773,342	992,250
Loss for the period	$ 5,215,578	$ 1,714,456

A significant portion of the loss in both years is a reflection of stock-based compensation expense. 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, 2003, the estimated fair value of the options granted to non-employees of $992,250 was recorded in the statement of operations. The stock-based compensation related to the vested portion of employee grants of $307,400 is included in the statement of deficit.

Effective January 1, 2004, the Company was required to record stock-based compensation expense for all stock option grants during the year using the fair value based method. The fair value computed using the Black Scholes option pricing model is only an estimate of the potential value of the individual options. The Company is not required to make any payments for such transactions. (See MD&A section "Changes in Accounting Policy.").

Overhead expenditures, including administrative, management fees, professional fees, consulting fees and travel for the year ended December 31, 2004 amounted to $2,624,070 compared to $723,545 for the year ended December 31, 2003. During the nine months ended September 30, 2003, the Company had limited funds and a working capital deficiency and required additional funds to continue operations. Administrative and regulatory costs during 2003 were kept to a minimum and the Company did not have any staff. With the raising of funds in late 2003 and early 2004 to continue the development of the project, the Company hired additional staff to support the development costs.

Interest income of $181,834, for the year ended December 31, 2004, (2003 -$1,339) is comprised of interest earned on cash balances. The increase is attributable to interest earned on higher cash balances resulting from financings completed in later 2003 and 2004.

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, 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)

FISCAL QUARTER - ENDED	4th Quarter Dec 31, 2003	3rd Quarter Sept 30, 2003	2nd Quarter June 30, 2003	1st Quarter Mar 31, 2003
INTEREST AND OTHER INCOME	$ 1,258	$ 21	$ 18	$ 42
NET LOSS	(1,235,015)	(179,174)	(184,888)	(115,379)
LOSS PER SHARE	$ (0.10)	$ (0.01)	$ (0.01)	$ (0.01)

The increase in the quarterly losses in 2004, compared to 2003 is a reflection of the increase in the level of activity during the period. During the first and second quarter of 2004, the increase in costs was primarily due to stock-based compensation. During the first quarter 2004, the stock-based compensation expense amounted to $685,182, and during the second quarter amounted to $2,088,160. Administrative and regulatory costs increased in 2004 as compared to 2003, due to level of activity. During the nine months ended September 30, 2003, the Company had limited funds and a working capital deficiency and required additional funds to continue operations. Administrative and regulatory costs during 2003 were kept to a minimum and the Company did not have any staff.

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.

On January 14, 2004, the Company received gross proceeds of $1,972,600 through the issuance of 1,643,833 units at a price of $1.20 per unit. The Company paid finders fees totaling $95,004. On May 4, 2004, the Company completed a $15,000,000 syndicated equity offering led by Dundee Securities Corporation. The Company issued 4,927,783 flow-through shares and 3,180,325 non-flow through units, each priced at $1.85. In connection with the private placement, $1,104,430 was paid to the agents, together with compensation options entitling the agents to acquire 567,568 shares at $1.85 per share. (see - Note 9(b)(*iv*) of the notes to the consolidated financial statements). During the year ended December 31, 2004, the Company received net proceeds of $15,651,195 from the issuance of shares.

The Company has continued the development of its geothermal project and invested a total of $17,994,502 to date. During the year ended December 31, 2004, the Company invested a total of $14,277,261 (of which, $3,672,949 is included in account payables and accrued liabilities) in the technical program, with total costs to date on drilling of well MC-6 at $8,022,344; well MC-7 at $3,264,071; road construction, drill site preparation, expansion and road maintenance costs amounted to $1,765,729; and environmental assessment and public affairs amounted to $532,206.

At December 31, 2004, the Company had working capital of $1,930,292 (December 31, 2003- $3,507,975), and subsequent to year end, the Company completed a $7,302,322 guaranteed agency financing. The proceeds of the offering are being used to continue the technical program with the drilling of the third production-size well. The ongoing development of the project will require the Company to raise additional capital through equity financings.

Contractual Obligations:

Contractual Obligations:	Total	2005	2006	2007	2008 and thereafter
Office Lease	$ 28,000	$ 24,000	$ 4,000	$ -	$ -
Long-term debt	833,078	-	-	-	833,078
Site reclamation and closure costs	445,941	-	-	132,918	-

With respect to contractual obligations, the Company has commitments relating to its lease for office space of $24,000 annually until February 27, 2006.

The long-term liability of $833,078 due to Crew Development Corporation is not due until December 31, 2011. Interest will 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.

On February 4, 2005, the Company entered into a $4.0 million standby facility with Quest Capital Corp. ("Quest"), to ensure an uninterrupted continuation of the project activities while the Company secured a financing. In consideration of the facility, Quest received 436,363 common shares of the Company. The loan of $4,000,000 is due October 4, 2005 and bears interest at a rate of 12% per annum, compounded monthly. The due date of the loan was subsequently extended to December 15, 2005, and in consideration for the extension of the loan, the Company issued 377,992 common shares of the Company. In connection with the standby facility, 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.

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% 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

Stock-based compensation and other stock-based payments

Effective January 1, 2004, the Company retroactively adopted the new provisions of the CICA Handbook Section 3870, "*Stock-Based Compensation and other Stock-Based Payments*", whereby all stock options granted are accounted for under the fair-value based method. In 2003, all stock-based awards made to non-employees were recognized and measured using the fair value based method at the date of grant. For stock options granted to employees, the Company adopted the disclosure only provisions whereby pro forma net income and pro forma earnings per share were disclosed as if the fair value based method of accounting had been applied. As allowed, the Company has retroactively applied the fair value based method to all employee stock options granted on or after January 1, 2002, without restatement of prior periods. The retroactive adoption resulted in an increase to opening deficit of $307,400 and a corresponding increase to the contributed surplus as at January 1, 2004, with respect to stock options granted in 2003.

Asset retirement obligation:

Effective January 1, 2004, the Company retroactively adopted the new provisions of the CICA's Handbook section 3110, "*Asset Retirement Obligations*". Under this standard, asset retirement obligations are recognized for the estimated costs associated with exit activities and recorded as a liability at fair value. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset's carrying value at its initial discounted value and is amortized over the asset's useful life. This change in accounting policy has been applied retroactively and has resulted in an increase in geothermal property by $59,820, set up a liability for site reclamation and closure costs of $231,055 and recorded a $150,230 increase to the deficit, all as at December 31, 2003. The loss for the year ended December 31, 2003, has been increased by $21,005 as a result of this change. Under the standard, future asset retirement obligations are not recorded where timing or amount of the remediation costs cannot be reasonably estimated.

Related Party Transactions

During the year ended December 31, 2004, the Company paid management fees to the Chairman and President of the Company in the ordinary course of business amounting to $406,667 (2003 - $262,500), of which $87,500 (2003 - $18,750) is included in geothermal property costs. During the year ended December 31, 2004, $70,000 in consulting fees were paid to an officer of the Company and $25,632 (2003 - $10,000) 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 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, 2004, there were 27,709,601 common shares outstanding. A total of 3,180,325 share purchase warrants, 567,568 compensation options and 2,760,000 stock options were also outstanding, which are described in detail in notes 9(b), 9(f) and 9(h) to the audited financial statements.

As at April 28, 2005, the Company's outstanding share data was as follows:

Common shares outstanding: 36,267,908

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 22, 2008.
690,000 at an exercise price of $1.00 per share and an expiry date of April 26, 2008.

Stock options: 2,760,000

Compensation options: 1,078,731

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 2007. 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 and Annual Information Form, 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.