

Consolidated Financial Statements

**WESTERN GEOPower CORP.**

Unaudited Interim Consolidated Financial Statements  
(Expressed in Canadian dollars)

For the six months ended June 30, 2007 and 2006

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**NOTICE TO SHAREHOLDERS of**

**WESTERN GEOPOWER CORP.**

Responsibility for Financial Statements:

The accompanying unaudited interim consolidated financial statements for the six months ended June 30, 2007 and 2006 of Western GeoPower Corp., have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the December 31, 2006 audited financial statements. Only changes in accounting policies have been disclosed in these financial statements. Statements are presented on the accrual basis of accounting. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

These interim consolidated financial statements have not been reviewed by the Company's auditors

# WESTERN GEOPOWER CORP.

Consolidated Balance Sheets  
(Expressed in Canadian dollars)

	June 30, 2007 <i>(Unaudited)</i>	December 31, 2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 466,020	\$ 1,325,698
Amounts receivable	12,719	36,180
Prepaid expenses and deposits	196,608	147,583
	<u>675,347</u>	<u>1,509,461</u>
Equipment	168,518	187,906
Geothermal properties (note 5)	32,803,924	32,030,012
Reclamation deposit (note 5)	150,000	150,000
	<u>\$ 33,797,789</u>	<u>\$ 33,877,379</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 162,848	\$ 288,129
Long term debt (note 6)	833,078	833,078
Provision for site reclamation and closure costs (note 8)	613,330	587,146
Future income taxes	3,985,699	4,287,850
	<u>5,594,955</u>	<u>5,996,203</u>
Shareholders' equity:		
Share capital (note 9)	34,991,113	34,471,513
Advances on share subscriptions	250,000	-
Contributed surplus	6,480,991	6,486,552
Accumulated other comprehensive income (loss) (note 3)	-	-
Deficit	(13,519,270)	(13,076,889)
	<u>28,202,834</u>	<u>27,881,176</u>
	<u>\$ 33,497,789</u>	<u>\$ 33,877,379</u>

Nature of operations (note 1)  
Commitments (notes 5 and 10)  
Subsequent events (notes 5(b), 9(d), 9(f) and 11)

*See accompanying notes to the consolidated financial statements.*

Approved on behalf of the Board:

Kenneth MacLeod (signed)  
Director

John Copeland (signed)  
Director

# WESTERN GEOPower CORP.

Consolidated Statements of Operations and Comprehensive Income

(Expressed in Canadian dollars)

Six months ended June 30, 2007 and 2006 and three months ended June 30, 2007 and 2006

<i>(Unaudited)</i>	Three months ended June 30,		Six months ended June 30,	
	2007	2006 <i>(restated-note4)</i>	2007	2006 <i>(restated-note4)</i>
Expenses:				
Advertising and promotion	\$ 83,377	\$ 10,568	\$ 112,496	\$ 19,402
Amortization and accretion	15,223	16,635	30,446	33,271
Consulting and advisory fees	16,747	33,151	31,747	52,604
General and administration	27,228	42,986	61,128	76,621
Directors' fees	16,000	15,000	28,000	22,500
Interest and bank charges, net	544	30,423	1,231	70,423
Financing costs	-	39,112	-	77,794
Management fees (note 7)	80,000	22,500	105,000	45,000
Professional fees	20,348	33,916	31,364	44,241
Regulatory fees, transfer agent and shareholder communications	12,943	25,601	18,966	39,321
Rent	15,341	9,390	30,560	15,812
Salaries	109,037	79,305	229,315	162,426
Travel & related	6,989	39,557	13,294	41,117
Loss on disposal of assets	123	-	1,777	-
Stock-based compensation (note 9(e))	64,839	-	64,839	809,677
Loss before the undernoted	(468,739)	(398,144)	(760,162)	(1,510,209)
Interest income	7,662	11,316	15,630	19,350
Future income tax recovery	168,865	598,040	302,151	598,040
Income (loss) for the period	(292,212)	211,212	(442,381)	(892,819)
Other comprehensive income (loss for the period (note3))	-	-	-	-
Net Income (loss), being comprehensive Income (loss)	\$ (292,212)	\$ 211,212	\$ (442,381)	\$ (892,819)
Basic and diluted loss per share	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ (0.01)
Weighted average number of shares outstanding	105,875,679	88,106,875	105,875,679	88,012,952

See accompanying notes to the consolidated financial statements.

# WESTERN GEOPOWER CORP.

Consolidated Statement of Shareholders' Equity  
(Expressed in Canadian dollars)

<i>(Unaudited)</i>	June 30, 2007	December 31, 2006
<b>Common Shares</b>		
Balance at beginning of period	\$ 34,471,513	\$ 33,926,741
Exercise of warrants	125,000	-
Exercise of Agents options	225,000	-
Private placement net of issue costs	-	2,609,938
Future income tax effect on renouncing flow-through share proceeds expensed	-	(2,065,166)
Exercise of stock options	99,200	-
Fair value of stock options upon exercise from contributed surplus	70,400	-
Balance at end of period	34,991,113	34,471,513
Advances on share subscriptions	250,000	-
<b>Contributed Surplus</b>		
Balance at beginning of period	6,486,552	5,405,958
Fair value of stock compensation	64,839	1,080,594
Fair value of stock options upon exercise to share capital	(70,400)	-
Balance at end of period	6,480,991	6,486,552
<b>Accumulated Deficit</b>		
Balance at beginning of period	(13,076,889)	(12,075,918)
Net loss	(442,381)	(1,000,971)
Adjustments to opening balance due to accounting policy changes	-	-
Balance at end of period	(13,519,270)	(13,076,889)
<b>Accumulated Other Comprehensive income (loss)</b>		
Balance at beginning of period	-	-
Current period	-	-
Adjustments to opening balance due to accounting policy changes	-	-
Balance at end of period	-	-
<b>Total Shareholders' Equity</b>	<b>\$ 28,202,834</b>	<b>\$ 27,881,176</b>

See accompanying notes to the consolidated interim financial statements.

# WESTERN GEOPOWER CORP.

## Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Three months ended June 30, 2007 and 2006 and six months ended June 30, 2007 and 2006

<i>(Unaudited)</i>	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>(restated-note 4)</i>		<i>(restated-note 4)</i>	
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Loss for the period	\$ (292,211)	\$ 211,212	\$ (442,381)	\$ (892,819)
<b>Items not involving cash:</b>				
Amortization and accretion	15,223	16,635	30,446	33,271
Loss on disposal of assets	123	-	1,777	-
Amortization of deferred financing costs	-	39,112	-	77,794
Stock-based compensation	64,839	-	64,839	809,677
Future income tax recovery	(168,865)	(598,040)	(302,151)	(598,040)
<b>Changes in non-cash operating working capital</b>				
Amounts receivable	4,362	(286)	23,461	104,265
Prepaid expenses and deposits	(32,692)	(27,041)	(49,025)	(25,356)
Accounts payable and accrued liabilities	(77,537)	20,746	(141,289)	(454,680)
	(486,758)	(337,662)	(814,323)	(945,888)
<b>Investments:</b>				
Geothermal property costs, net of accounts payable and accrued liabilities	(457,079)	(247,842)	(741,907)	(2,066,276)
Purchase of equipment	-	-	(3,148)	-
Proceeds from sale of asset	500	-	500	-
-	(456,579)	(247,842)	(744,555)	(2,066,276)
<b>Financing:</b>				
Cash proceeds received from issuance of shares	408,125	-	449,200	5,924,701
Advances on share subscriptions	250,000	-	250,000	-
Short term loan (repayment)	-	-	-	(2,000,000)
	658,125	-	699,200	3,924,701
Increase (decrease) in cash and cash equivalents	(285,212)	(585,504)	(859,678)	912,537
Cash and cash equivalents, beginning of period	751,232	1,605,458	1,325,698	107,417
<b>Cash and cash equivalents, end of period</b>	<b>\$ 466,020</b>	<b>\$ 1,019,954</b>	<b>\$ 466,020</b>	<b>\$ 1,019,954</b>
<b>Supplementary cash flow information</b>				
Interest paid	-	\$31,514	-	\$70,423
Interest received	7,662	11,316	15,630	19,350
<b>Non-cash financing and investing activities:</b>				
Stock-based compensation capitalized	-	-	-	63,362
Amortization of equipment capitalized	7,998	10,286	15,997	20,572
Geothermal property costs included in accounts payable and accrued liabilities	43,449	-	122,117	-

See accompanying notes to the consolidated interim financial statements

# WESTERN GEOPOWER CORP.

Notes to Consolidated Interim Financial Statements (Unaudited)  
(Expressed in Canadian dollars)  
Six months ended June 30, 2007 and 2006

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## 1. Nature of operations:

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

These financial statements have been prepared on the basis that the Company will continue as a going concern. At June 30, 2007, the Company had working capital of \$512,499. Subsequent to the quarter ended June 30, 2007, the Company raised \$18.6M through a combination of private placement and exercise of warrants and options. The funds raised will provide the capital to execute the Company's current development program and working capital. Management recognizes that the Company will need to generate additional financial resources in order to meet its long term 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:

### Basis of presentation:

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

These interim consolidated financial statements follow the same accounting policies and methods of application as the Company's most recent annual financial statements, except as described in note 3 and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2006.

# WESTERN GEOPOWER CORP.

Notes to Consolidated Interim Financial Statements  
(Expressed in Canadian dollars)  
Six months ended June 30, 2007 and 2006

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### 3. Changes in accounting policies

Effective January 1, 2007, the Company adopted, on a prospective basis, the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

a) *Accounting changes – (Section 1506)*

This standard allows for voluntary changes in accounting policy only when such changes enhance the relevance and reliability of the financial statements, and the comparability of those financial statements over time and with the financial statements of other entities. The standard requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements.

Any impact that the adoption of Section 1506 will have on the results of operations and financial condition will depend on the nature of future accounting changes. Its adoption has had no impact on these unaudited interim consolidated financial statements.

b) *Comprehensive Income – (Section 1530)*

Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. This standard requires that certain gains and losses which would otherwise be recorded as part of net earnings be presented in "other comprehensive income" until it is considered appropriate to recognize them into net earnings. This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as other financial statements.

c) *Equity – (Section 3251)*

This section establishes standards for the presentation of changes in equity that arise as a result of the adoption of comprehensive income, financial instruments – recognition and measurement, and hedges (Sections 1530, 3855, and 3865). It establishes standards for the presentation of accumulated other comprehensive income, which is comprised of all components of other comprehensive income.

d) *Financial Instrument- Recognition and Measurement (Section 3855)*

This standard requires all financial instruments within its scope, including derivatives, to be included on a company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations and comprehensive income.

All financial assets and liabilities are recognized when the Company becomes a party to the contract creating the item. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to January 1, 2007 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

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Notes to Consolidated Interim Financial Statements  
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### 3. Changes in accounting policies (continued)

Under Section 3855, all financial instruments are classified into one of the following balance sheet categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-for-trading financial assets and liabilities that are initially measured at fair value and where subsequent changes in fair value are recognized in the consolidated statement of operations.
- Available-for-sale financial assets that are initially measured at fair value and where subsequent changes in fair value are recognized in other comprehensive income until the instrument is derecognized or impaired at which time that amounts would be recorded in net earnings.
- Held-to-maturity investments, loans and receivables, or other financial liabilities – all of which are initially measured at cost and where subsequent changes in cost are amortized utilizing the effective interest rate method.
- All derivative financial instruments are classified as held-for-trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in operations in the period which they arise.

In accordance with this new standard, the Company has classified its financial instruments as follows:

- Cash and cash equivalents were classified as held-for-trading and accordingly carried at their fair values.
- Accounts receivable are classified as loans and receivables, and accordingly carried at their amortized costs; As stated in with Section 3855 when the transaction resulting in initial recognition of a financial asset or liability is a related party transaction involving the transfer of an existing financial asset or financial liability, the transaction is first measured at carrying amount or exchange amount in accordance with related party transactions. Accordingly, the long term debt is accounted for at the carrying amount.
- Reclamation deposits invested in government backed securities are classified as available-for-sale and are carried at fair market value.
- Accounts payable and accrued liabilities, and long term debt are classified as other financial liabilities and are currently accounted for at their amortized cost using the effective interest method.

The classification of financial instruments as at January 1, 2007 and their subsequent changes to June 30, 2007 have resulted in no material gains or losses that require separate presentation in other comprehensive income or recognition in earnings (loss).

Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying value at inception, and are recognized over the term of the assets or liabilities using the effective interest method.

# WESTERN GEOPower CORP.

Notes to Consolidated Interim Financial Statements  
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### 3. Changes in accounting policies (continued)

#### e) *Financial Instruments – Disclosure and Presentation (Section 3861)*

This section establishes disclosure and presentation standards for financial instruments and non-financial derivatives, and identifies relevant information to be disclosed. Disclosures need not be provided on a comparative basis for periods prior to the adoption date of these new standards.

#### f) *Hedging (Section 3865)*

This standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any hedges.

### 4. Restatement of interim consolidated financial statements

The Company has restated the consolidated statements of operations and comprehensive income and the consolidated statements of cash flows for the interim period ended June 30, 2006, to reflect the adjustments relating to future income tax recovery and future income tax liability for the period. The effect of the restatement resulted in an increase in the geothermal property in the amount of \$37,709, decrease in the future income tax liability in the amount of \$648,137; an increase in share capital (on reduction of the future income tax liability on renouncing flow through shares) in the amount of \$87,806 and an increase in future income tax recovery, as a result of the change in income tax rates from 34% to 31%.

### 5. Geothermal property:

Expenditures incurred on the geothermal properties to date are follows:

	June 30, 2007,	December 31, 2006
South Meager geothermal project (note 5(a))	\$ 31,538,261	\$ 31,483,600
Unit I5 Steam Field (note 5(b))	1,265,663	546,412
	<u>\$ 32,803,924</u>	<u>\$ 32,030,012</u>

#### (a) South Meager Geothermal Project:

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

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

# WESTERN GEOPower CORP.

Notes to Consolidated Interim Financial Statements  
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## 5. Geothermal property (continued):

### (a) South Meager Geothermal Project (continued):

Expenditures incurred on the geothermal property are as follows:

	June 30, 2007	December 31, 2006
Balance, beginning of period:	\$ 31,483,600	\$ 30,728,270
Costs incurred during the year:		
Lease permits and occupancy	-	42,670
Project management	-	140,162
Camp office and administration	20,157	130,600
Resource delineation	-	-
Drilling and testing	12,113	229,649
Drill site construction and expansion	-	-
Road maintenance and snow removal	-	3,410
Community stakeholder relations	22,391	44,992
Environmental review	-	45,783
Stock-based compensation	-	68,649
Future income taxes on stock-based compensation and capital asset amortization	-	49,415
Provision for site reclamation and closure costs	-	-
	54,661	755,330
Balance, end of period	\$ 31,538,261	\$ 31,483,600

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

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

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

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

On June 16, 2006, the Company entered into a geothermal lease for the Unit 15 Steam Field covering 421 acres within The Geysers Geothermal Field in Northern California. The lease grants the Company the right to re-develop the geothermal reservoir and build a new plant for electricity generation. An annual rental payment in the amount of US\$100,000 is required to maintain the rights granted by the geothermal lease. The primary lease term is for three years and expires June 15, 2009, however the

# WESTERN GEOPOWER CORP.

Notes to Consolidated Interim Financial Statements  
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## 5. Geothermal property (continued):

lease will continue in the event that resource substances are produced in commercial quantities from the leased land and utilized to produce gross revenue.

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

On February 7, 2007, the Company entered into a third lease adding an additional 74 acres contiguous to the Unit 15 Steam Field. An annual rental payment in the amount of US\$5,000 is required to maintain the rights granted by the lease. The primary lease term is for three years and expires February 7, 2010, however the lease will continue in the event that resource substances are produced in commercial quantities from the leased land and utilized to produce gross revenue. If a power plant is constructed on this leased area, then the annual lease payment would increase to US\$45,000. If the power plant is constructed on the first Unit 15 Steam Field leased area (separate lease) there is no charge in the annual compensation amount.

On July 5, 2007, the Company announced it entered into a lease adding an additional 413 acres contiguous to the Unit 15 Steam Field. An annual rent payment in the amount of US\$10,000 is required to maintain the rights granted by the lease. The primary lease term is for three years and expires June 29, 2010, with an annual renewal for up to 50 years as long as resource substances are produced in commercial quantities from the leased land and utilized to produce gross revenue.

On May 10, 2007, the Company announced, the signing of a Power Purchase Agreement (PPA) between its wholly-owned subsidiary, Western GeoPower, Inc. and Pacific Gas & Electric Company of San Francisco, California (PG&E) for the supply of approximately 212,000 Megawatt-hours per year of clean, renewable, baseload electricity from the Company's proposed 25.5 Megawatt (net) geothermal power plant scheduled to come on line in 2010 at the Unit 15 steam field.

Subject to approval by the California Public Utilities Commission, power deliveries from the plant – to be named Western GeoPower Unit 1 - are scheduled to commence in 2010. The contract allows for an increase in net capacity to a maximum of 31.5 Megawatts, which could accommodate the steam potential from a recently-acquired leasehold extension.

# WESTERN GEOPOWER CORP.

Notes to Consolidated Interim Financial Statements  
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## 5. Geothermal property (continued):

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

	June 30, 2007	December 31, 2006
Balance, beginning of period:	\$ 546,412	\$ -
Costs incurred during the year:		
Leases	126,620	123,465
Project management	121,862	101,226
Administration and project travel	87,007	45,263
Insurance	-	43,843
Professional fees; title and land search	45,082	24,755
Resource assessment and feasibility report	1,538	51,758
Environmental and legal review for power sales bids	48,078	94,109
Project finance and project development	131,219	41,420
Environmental - permitting and project development	157,845	20,574
	719,251	546,412
Balance, end of period	\$ 1,265,663	\$ 546,412

## 6. Long term debt:

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

## 7. Related party transactions:

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

	June 30, 2007	June 30, 2006
Management fees (a)	\$ 160,000	\$ 90,000
Consulting fees (b)	66,862	22,604

(a) \$55,000 (June 30, 2006 - \$45,000) of management fees is included in geothermal property costs; June 30, 2007 management fees of \$160,000 include a bonus of \$50,000 (June 30, 2006 - Nil).

(b) \$66,862 (June 30, 2006 - \$22,604) in advisory fees were paid to a director of the Company; of which \$66,862 (June 30, 2006 - Nil) of these fees are included in geothermal property costs;

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Notes to Consolidated Interim Financial Statements  
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Six months ended June 30, 2007 and 2006

## 8. Provision for site reclamation and closure costs:

	June 30, 2007	December 31, 2006
Balance, beginning of period	\$ 587,146	\$ 533,770
Additional liabilities incurred	-	-
Accretion expense	26,184	53,376
<b>Balance, end of period</b>	<b>\$ 613,330</b>	<b>\$ 587,146</b>

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

Assumptions used in the determination of the site reclamation and closure liabilities include estimated undiscounted costs of \$1,414,788 to be incurred beginning 2017 at a discount rate of 10% to 12% and inflation factor of 2.0%. \$132,918 of the asset retirement obligation was to be incurred by December 31, 2007 under the current lease terms. Subsequent to the quarter ended, the Company renewed the license for an additional 10 years expiring June 30, 2017. As such, any reclamation costs associated with this license has been classified as long-term.

## 9. Share capital:

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

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2005	88,106,875	\$ 33,926,741
Issued for cash on private placement, net of issuance costs (note 9(b))	17,538,334	2,609,938
Future income tax effect of renouncing flow-through share proceeds expensed (note 9(c))	-	(2,065,166)
<b>Balance, December 31, 2006</b>	<b>105,645,209</b>	<b>34,471,513</b>
Issued for cash on exercise of warrants (note 9(f))	500,000	125,000
Issued for cash on exercise of agents options (note 9(d))	1,500,000	225,000
Issued for cash on exercise of stock options (note 9(d))	640,000	99,200
Fair value of stock options upon exercise from contributed surplus	-	70,400
<b>Balance, June 30, 2007</b>	<b>108,285,209</b>	<b>\$ 34,991,113</b>

# WESTERN GEOPower CORP.

Notes to Consolidated Interim Financial Statements  
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## 9. Share capital (continued):

On December 18, 2006, the Company closed a \$1,630,750 non-brokered private placement and a \$1,000,000 financing with Quest for total net proceeds of \$2,609,938. The Company issued 17,538,334 units, each priced at \$0.15 per unit. Each unit is comprised of one share and one warrant to purchase one additional common share at an exercise price of \$0.25 per share until December 30, 2008.

### (c) Flow-through shares:

During the year ended December 31, 2006, the Company renounced \$6,661,825 of the flow through share proceeds received in 2005 and expended in 2005 and 2006, and recorded a future income tax liability of \$2,065,166 related thereto.

### (d) Stock options:

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

The continuity of the Company's stock options for the period ended June 30, 2007, all of which are exercisable at June 30, 2007, is as follows:

Exercise price	Expiry date	Balance December 31, 2006	Granted	Exercised	Forfeited	Balance June 30, 2007
\$0.35	October 17, 2008	40,000	-	-	-	40,000
\$0.35	January 20, 2009	75,000	-	-	-	75,000
\$0.35	March 16, 2009	25,000	-	-	-	25,000
\$0.35	May 4, 2009	175,000	-	-	-	175,000
\$1.85	May 4, 2007 (i)	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	-	(1,500,000)	-	2,670,417
\$0.22	February 17, 2011	5,130,000	-	-	-	5,130,000
\$0.28	March 31, 2011	300,000	-	-	-	300,000
\$0.17	August 23, 2011	100,000	-	-	-	100,000
\$0.155	December 19, 2011	1,850,000	-	(640,000)	-	1,210,000
\$0.32	May 30, 2012	-	300,000	-	-	300,000
		14,609,148	300,000	(2,140,000)	(567,568)	12,201,580
Weighted average exercise price		\$0.33	\$0.32	\$0.15	\$1.85	\$0.37
Contractual weighted average remaining life (years)		3.26				2.90

(i) 5,249,148 of the options included in the above total are agents' options granted to the agents for private placements.

# WESTERN GEOPower CORP.

Notes to Consolidated Interim Financial Statements  
(Expressed in Canadian dollars)  
Six months ended June 30, 2007 and 2006

## 9. Share capital (continued):

### (d) Stock options (continued):

During the six months ended June 30, 2007, 640,000 options were exercised by employees, officers and directors of the Company.

On May 4, 2007, 567,568 Agent's options at \$1.85 expired without exercise.

On May 30, 2007, the Company granted 300,000 stock options to a newly appointed director at the market close on May 30, 2007 of \$0.32 per share for a period of five years under the stock option plan.

On June 22, 2007, 1,500,000 Agent's options at \$0.15 were exercised.

### (e) Stock-based compensation:

During the six months ended June 30, 2007, the Company granted 300,000 shares to purchase options to a director. The weighted average fair value of options granted being \$0.22 per option, was estimated using the Black-Scholes option pricing model with the following assumptions; risk free interest rate of 4.53%, expected dividend yield of 0%; volatility factor of 81.12% and an expected life of 5 years. Under this method of calculation, the fair value of all options granted during the six months ended June 30, 2007 amounted to \$64,839, which has been reflected in the statements of operations and comprehensive income.

During the six months ended June 30, 2006, the Company granted 5,430,000 shares to purchase options to directors, employees and consultants. The weighted average fair value of options granted being \$0.16 per option, was estimated using the Black-Scholes option pricing model with the following assumptions; risk free interest rate of 4.11%, expected dividend yield of 0%; volatility factor of 90.65% and an expected life of 5 years. Under this method of calculation, the fair value of all options granted during the six months ended June 30, 2006 amounted to \$873,039, of which \$63,362 was capitalized to geothermal property costs and \$809,678 has been reflected in the statements of operations and comprehensive income.

### (f) Share purchase warrants:

The continuity of the Company's warrants for the period ended June 30, 2007 is as follows:

Exercise price	Expiry date	Balance December 31, 2006	Issued during the year	Exercised/ expired	Balance June 30, 2007
\$2.50	May 4, 2007	3,180,325	-	(3,180,325)	-
\$1.20	April 5, 2008	302,322	-	-	302,322
\$1.20	April 22, 2008	690,000	-	-	690,000
\$0.25	December 30, 2008	48,493,467	1,500,000	(500,000)	49,493,467
\$0.25	December 30, 2008	17,538,334	-	-	17,538,334
		70,204,448	1,500,000	(3,680,325)	68,024,123

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

# WESTERN GEOPOWER CORP.

Notes to Consolidated Interim Financial Statements  
(Expressed in Canadian dollars)  
Six months ended June 30, 2007 and 2006

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## 9. Share capital (continued):

(f) Share purchase warrants (continued):

On May 4, 2007 3,180,325 warrants expired without being exercised.

On June 22, 2007, 1,500,000 agents' options at \$0.15 were exercised for proceeds of \$225,000 pursuant to an agent option agreement dated December 2005. Under the terms of the agreement, Dundee also received 1,500,000 warrants to acquire one common share of the Company at \$0.25 per share until December 30, 2008.

During the quarter ended June 30, 2007, 500,000 warrants issued December 30, 2005 were exercised for proceeds of \$125,000.

## 10. Commitments:

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

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

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During the quarter ended, the Company entered into a new lease for its site storage facilities commencing July 1, 2007 for a period of three years.

## 11. Subsequent events:

On June 29, 2007, the Company announced a warrant incentive program to encourage the early exercise of 63,563,668 warrants relating to share purchase warrants issued on December 30, 2005 and December 15, 2006.

On July 27, 2007 the Company announced commitments for \$18.4 million in financing through a combination of private placement and exercise of warrants and options.

Upon closing of the warrant incentive program, a total of 46,964,668 warrants were exercised at a price of \$0.25 per share for proceeds of \$11,741,167. Of this amount, 16,433,334 free-trading shares were issued to some subscribers and 30,531,334 units (the "Units") were issued to other subscribers pursuant to the warrant exercise incentive program. The Units comprise one common share at \$0.25 and one new warrant which will allow the holder to acquire one common share of Western GeoPower at \$0.35 per share until December 30, 2008. The warrants are subject to an acceleration provision, which provides that, if the Company's shares trade at \$0.50 or more for ten consecutive trading days, it will trigger a 30 day timeframe within which to exercise the warrants or they will expire. The Units are subject to a four-month hold, expiring on November 28, 2007.

# WESTERN GEOPOWER CORP.

Notes to Consolidated Interim Financial Statements  
(Expressed in Canadian dollars)  
Six months ended June 30, 2007 and 2006

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Dundee Securities exercised an additional 2,670,417 Agents options at \$0.15 for proceeds of \$400,563 pursuant to an Agent Option agreement dated December 2005. Under the terms of the Agent Option agreement, Dundee also received 2,670,417 warrants to acquire one common share of Western GeoPower at \$0.25 per share until December 30, 2008,

The private placement comprises 25,000,000 shares of Western GeoPower at \$0.25 per share for proceeds of \$6,250,000 from a strategic investor - Iceland-based geothermal developer, Geysir Green Energy will acquire 25,000,000 common shares. On closing of the private placement, a representative of Geysir will be appointed to the Western GeoPower Board. The private placement is subject to regulatory approval and the shares will be subject to a four-month hold.



*Management's Discussion and Analysis*

*For the six months ended  
June 30, 2007*

# **WESTERN GEOPOWER CORP.**

Management's Discussion and Analysis  
For the six months ended June 30, 2007  
(Expressed in Canadian dollars)

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The following Management's Discussion and Analysis of Western GeoPower Corp., (the "Company") dated as at August 24, 2007, should be read in conjunction with the audited consolidated financial statements including the notes thereto for the years ended December 31, 2006 and the un-audited consolidated financial statements for the six months ended June 30, 2007. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis are expressed in Canadian dollars.

## **Forward looking statements**

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

## **Company Overview**

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

## **Project Update:**

### **South Meager Geothermal Project**

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

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

The surveys show that the wells have continued to heat up in comparison to surveys of November 2005. MC-6 continues to recover from the extended injection test of 2005 and is expected to recover to stabilized temperatures in the range of 245 to 260 degrees Celsius (473 to 500 degrees Fahrenheit) in the permeable interval below a measured depth of 1,800 metres (5,906 feet). MC-7 has now heated to a maximum measured temperature of 259 degrees Celsius (498 degrees Fahrenheit) at a depth of 2,800 metres (9,186 feet). MC-8 also has continued to heat up in comparison to surveys last November, but has not yet reached a temperature at which the well is likely to sustain self-flow.

### **WGP UNIT 1 – The Geysers**

On June 16, 2006 the Company acquired a geothermal lease for the Unit 15 Steam Field covering 421 acres within The Geysers Geothermal Field in Northern California. The lease grants the Company the right to re-develop the geothermal reservoir and build a new plant for electricity generation. On October 6, 2006, the Company increased the lease area by entering into another geothermal lease covering an additional 140 acres contiguous to the Unit 15 Steam field acquired in June 2006. Total area under lease by the Company at the Geysers exceeds 500 acres. It is anticipated that one power plant will process steam production from both leaseholds. On February 7, 2007, the Company entered into a third lease adding an additional 74 acres contiguous to the above location, increasing the leasehold area to approximately 600 acres. On June 29<sup>th</sup>, the Company entered into a lease adding an additional 430 acres, for total leasehold of 1,017 acres.

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

The proposed 25.5 megawatt plant is expected to have a 95% availability factor. Total development costs, including power plant, gathering system, transmission system, administrative and finance charges, have been estimated to US\$97 million. The ongoing development of the projects will require the Company to raise additional capital through equity financings or a Joint Venture partner. Management has launched efforts to secure funding for the entire field and plant development.

On May 10, 2007, the Company announced the signing of a Power Purchase Agreement (PPA) between its wholly-owned subsidiary Western GeoPower, Inc., and Pacific Gas & Electric Company of San Francisco, California (PG&E) for the supply of approximately 212,000 Megawatt-hours per year of clean, renewable, baseload electricity from Western GeoPower's 25.5 Megawatt (net) geothermal power plant scheduled to come on line in 2010 at the Geysers Geothermal Field in Northern California.

Subject to approval of the California Public Utilities Commission, power deliveries from the plant – to be named Western GeoPower Unit 1 – are scheduled to commence in 2010. The contract allows for an increase in net capacity to a maximum of 31.5 Megawatts, which could accommodate the steam potential from recently-acquired leasehold extension.

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

**Results of Operations – Three months ended June 30, 2007**

For the three months ended June 30, 2007, the Company incurred a loss of \$292,212 (\$0.00 per share) compared to income of \$211,212 (\$0.00 per share) for the three months ended June 30, 2006.

Summary Data:	Three months ended June 30, 2007	Three months ended June 30, 2006
Interest income	\$ 7,662	\$ 11,316
Future income tax recovery	168,865	598,040
Administrative expense	(403,900)	(329,334)
Finance charges	-	(39,112)
Interest on loan	-	(29,698)
Stock-based compensation expense	(69,294)	-
<b>(Loss) income for the period</b>	<b>\$ (292,212)</b>	<b>\$ 211,212</b>

During the three months ended June 30, 2007 the Company recorded \$168,865 in future income tax recovery, which is based on the losses carry forward for income tax purposes. During the three months ended June 30, 2006, the Company restated the consolidated statements of operations and comprehensive income to reflect the adjustments relating to future income tax recovery and future income tax liability for the period. The effect of the restatement resulted in an increase in future income tax recovery of \$598,040 of which \$327,992 was due to losses carry forward and \$270,048, as a result of the change in income tax rates from 34% to 31%.

During the three months ended June 30, 2007, the company granted 300,000 stock options to a director. The fair value of the options granted during the period amounted to \$64,839. There were no options granted during the three months ended June 30, 2007.

During the three months ended June 30, 2006, the Company recorded \$39,112 (2007-Nil) in finance charges, and \$31,148 (2007-Nil) in interest expense in relation to the short term loan to Quest. On December 15, 2006, the Company issued 6,666,667 Units to Quest in the financing at \$0.15 for cash proceeds of \$1,000,000. The proceeds were applied to the remaining balance on the loan and the Company received a complete discharge from Quest over the assets previously pledged as general security on the loan by December 31, 2006.

During the three months ended June 30, 2007, overall expenditures increased \$74,566 to \$403,900 (2006-\$329,334). The most significant increase was a \$72,809 increase in advertising, promotion and marketing costs to \$83,377 (2006-\$10,568). An increase of \$57,929 was the result of extensive European promotion, advertising and conference in Germany. The balance of the increase of 13,768 is attributed to fees paid to a marketing firm (2006- Nil) during the quarter. Travel costs decreased by \$32,568 to \$6,989 (2006-\$39,557); the travel costs expensed in 2007 relate to conferences and road shows. During 2007 any travel related to the project was capitalized to the project costs. During the three months ended June 30, 2006, the travel expenses were higher due to due diligence and meetings for acquisition of new projects.

During the three months ended June 30, 2007, general and administrative expense decreased by \$15,578 (37%) to \$27,228 (2006-\$42,986); due to a credit received for charges expensed in late 2006, and due to a foreign exchange gain recognized on the US dollar bank account. Consulting and advisory fees expense decreased by \$16,404 (49%) to \$16,747 (2006-\$33,151) primarily due to \$33,431 of advisory fees incurred in 2007 are included in geothermal property costs, whereas in quarter two of 2006 they were all expensed; management fees increased by \$57,500 to \$80,000 (2006-\$22,500) due to an increase in the management contract. Effective March 1, 2007, the monthly fees increased from \$15,000 to \$20,000 per month. Of which 50% of the management fees are included in geothermal property costs (note 7); In addition during the quarter ended June 30, 2007, the CEO was awarded a signing bonus of \$50,000, which was used to exercise options in the Company. Professional fees decreased by \$13,568 (40%) to \$20,348 (2006-\$33,916) due to a decrease in legal expenses, relating to the loan to Quest in 2006. Salary expense increased by \$29,732 (37%) to \$109,037 (2006-\$79,305) due to increase in salaries for employees and extra work required in 2007 for compliance and procedures. Rent expense increased by \$5,951 (63%) to \$15,341 (2006-\$9,390); Effective August 1, 2006 the Company entered into a new office lease for a period of 24 months to July 31, 2008. The Company was previously in a subleased office, whereby it was receiving a discounted rate of only \$2,000 per month.

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.

**Results of Operations – Six months ended June 30, 2007**

For the six months ended June 30, 2007, the Company incurred a loss of \$442,381 (\$0.00 per share) compared to a loss of \$892,819 (\$0.01 per share) for the six months ended June 30, 2006.

Summary Data:	Six months ended June 30, 2007	Six months ended June 30, 2006
Interest income	\$ 15,630	\$ 19,350
Future income tax recovery	302,151	598,040
Administrative expense	(695,323)	(553,444)
Finance charges	-	(77,794)
Interest on loan	-	(69,294)
Stock-based compensation expense	(64,839)	(809,677)
<b>(Loss) income for the period</b>	<b>\$ (442,381)</b>	<b>\$ (892,819)</b>

During the six months ended June 30, 2007, the company granted 300,000 stock options to a director. The fair value of the options granted during the period amounted to \$64,839. During the six months ended June 30, 2006, the company granted 5,340,000 stock options to directors, officers, employees and consultants. The fair value of the options granted during the period amounted to \$873,039 of which \$63,362 was capitalized as geothermal property cost and \$809,677 has been reflected in the statement of operations.

During the six months ended June 30, 2006, the Company recorded \$77,794 (2007-Nil) in finance charges, and \$69,294 (2007-Nil) in interest expense in relation to the short term loan to Quest. The loan was paid in full in December 2006. During the six months ended June 30, 2007, overall expenditures increased \$141,879 to \$695,323 (2006-\$553,444). The most significant increase was a \$93,094 increase in advertising, promotion and marketing costs to \$112,496 (2006-\$19,402). An increase of \$66,370 was the result of extensive European promotion, advertising and conference in

Germany. The balance of the increase of \$27,536 is attributed to fees paid to a marketing firm (2006- Nil) during the quarter. Travel costs decreased by \$27,823 to \$13,294 (2006-\$41,117); the travel costs expensed in 2007 relate to conferences and road shows. During 2007 any travel related to the project was capitalized to the project costs. During the six months ended June 30, 2006, the travel expenses were higher due to due diligence and meetings for acquisition of new projects.

During the six months ended June 30, 2007, general and administrative expense decreased by \$15,493 (20%) to \$61,128 (2006-\$76,621); due to a credit received for charges expensed in late 2006, and due to a foreign exchange gain recognized on the US dollar bank account. Consulting and advisory fees expense decreased by \$20,857 (40%) to \$31,747 (2006-\$52,604) primarily due to \$66,862 of advisory fees incurred in 2007 are included in geothermal property costs, whereas in quarter two of 2006 they were all expensed; management fees increased by \$60,000 to \$105,000 (2006-\$45,000) due to an increase in the management contract. Effective March 1, 2007, the monthly fees increased from \$15,000 to \$20,000 per month, of which 50% of the management fees are included in geothermal property costs (note 5). In addition during the quarter ended June 30, 2007, the CEO was awarded a signing bonus of \$50,000, which was used to exercise options in the Company.

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	2 <sup>nd</sup> Quarter June 30, 2007	1 <sup>st</sup> Quarter Mar 31, 2007	4 <sup>th</sup> Quarter Dec 31, 2006	3 <sup>rd</sup> Quarter Sept 30, 2006
INTEREST INCOME	\$7,662	\$ 7,968	\$ 4,897	\$ 7,061
NET INCOME (LOSS)	(292,212)	(150,170)	(229,453)	(337,605)
INCOME (LOSS) PER SHARE	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

FISCAL QUARTER - ENDED	2 <sup>nd</sup> Quarter June 30, 2006	1 <sup>st</sup> Quarter Mar 31, 2006	4 <sup>th</sup> Quarter Dec 31, 2005	3 <sup>rd</sup> Quarter Sept 30, 2005
INTEREST INCOME	\$ 11,316	\$ 8,034	\$ 1,596	\$ 8,655
NET LOSS	211,212	(1,104,031)	(358,858)	(1,065,864)
LOSS PER SHARE	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.03)

An analysis of the quarterly results over the last eight quarters shows a significant variation between the quarters. The primary reason is due to the stock-based compensation expense in the third quarter of 2005 (\$359,758), and in quarters one (\$809,677) and four (\$190,352) of 2006. The other significant variance is due to the finance costs in the amount of \$150,000 in 2006 (2005-\$752,104) and interest expense incurred in 2006 in the amount of \$120,440 (2005-\$430,091) from the loan from Quest. The costs were higher in 2005, as the amount of the loan initially was \$4.0M in 2005, where as the finance costs and interest in 2006 were based on a \$1.0M balance. The remaining balance on the loan was paid in December 2006.

**Liquidity and Capital Resources**

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

On December 18, 2006, the Company completed a \$1,630,750 non-brokered private placement and a \$1,000,000 financing with Quest for total net proceeds of \$2,609,938. The Company issued 17,538,334 units, each priced at \$0.15. Quest's participation of \$1,000,000 was applied towards the remaining balance of the outstanding loan.

On July 27, 2007 the Company announced commitments for \$18.4 million in financing through a combination of private placement and exercise of warrants and options.

Upon closing of the warrant incentive program on July 27, a total of 46,964,668 warrants were exercised at a price of \$0.25 per share for proceeds of \$11,741,167. Of this amount, 16,433,334 free-trading shares were issued to some subscribers and 30,531,334 units (the "Units") were issued to other subscribers pursuant to the warrant exercise incentive program. The Units comprise one common share at \$0.25 and one new warrant which will allow the holder to acquire one common share of Western GeoPower at \$0.35 per share until December 30, 2008. The warrants are subject to an acceleration provision, which provides that, if the Company's shares trade at \$0.50 or more for ten consecutive trading days, it will trigger a 30 day timeframe within which to exercise the warrants or they will expire. The Units are subject to a four-month hold, expiring on November 28, 2007.

Dundee Securities exercised an additional 2,670,417 Agents options at \$0.15 for proceeds of \$400,563 pursuant to an Agent Option agreement dated December 2005. Under the terms of the Agent Option agreement, Dundee also received 2,670,417 warrants to acquire one common share of Western GeoPower at \$0.25 per share until December 30, 2008,

The private placement comprises 25,000,000 shares of Western GeoPower at \$0.25 per share for proceeds of \$6,250,000 from a strategic investor - Iceland-based geothermal developer, Geysir Green Energy will acquire 25,000,000 common shares. On closing of the private placement, a representative of Geysir will be appointed to the Western GeoPower Board. The private placement is subject to regulatory approval and the shares will be subject to a four-month hold

At June 30, 2007, the Company had working capital of \$512,499. Subsequent to the quarter ended June 30, 2007, the Company raised \$18.6M through a combination of private placement and exercise of warrants and options. The funds raised will provide the capital to execute the Company's current development program and working capital. Management recognizes that the Company will need to generate additional financial resources in order to meet its long term business objectives.

**Contractual Obligations:**

Contractual Obligations:	Total	2007	2008	2009 and thereafter
Long-term debt	\$ 833,078	-	-	\$ 833,078
Site reclamation and closure costs	613,330	-	-	1,417,788
Office lease	92,683	58,075	34,608	-

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

The Company's provision for future site reclamation and closure costs is based on known federal and local laws and regulations concerning environmental requirements. It is not currently possible to estimate the impact on financial results, if any, of future legislative or regulatory developments. To the extent that the Company continues to be engaged in active exploration and development of the project, reclamation and closure costs will be deferred. Site reclamation and closure liability in the amount of \$132,918 was due to be incurred by December 31, 2007 under the current license terms. Subsequent to the quarter ended the Company renewed the license for an additional 10 years expiring June 30, 2017. Accordingly the liability associated with this license is expected to be pushed out to a long term liability. Upon confirmation of extension of the license, the Company will reevaluate the long term liability relating to this license.

### **Related Party Transactions**

During the six months ended June 30, 2007, the Company paid management fees to the President of the Company in the ordinary course of business amounting to \$110,000 (March 31, 2006-\$90,000), of which \$55,000 (June 30, 2006 - \$45,000) is included in geothermal property costs. In addition to management fees, during the six months ended June 30, 2006 the President of the Company received a signing bonus in the amount of \$50,000 (2006-Nil). During the six months ended June 30, 2007 - \$66,862 (June 30, 2006 - \$22,604) in advisory fees were paid to a director of the Company; \$66,862 (June 30, 2006-Nil) of these fees are included in geothermal property costs. Board member fees were paid to directors in the amount of \$25,000 (June 30, 2006 - \$19,500). In addition committee members are paid a fee of \$500 per committee meeting attended, and the chairman of the committee is paid a fee of \$1,000 per committee meeting.

### **Proposed Transactions**

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

### **Critical Accounting Estimates**

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

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

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

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

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

### **Changes in Accounting Policy**

The Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") issued Section 3855, "Financial Instruments-Recognition and Measurement", Section 3861, "Financial Instruments-Disclosure and Presentation", Section 3865, "Hedges", Section 3251, Equity, Section 1530, "Comprehensive Income", all of which are applicable to the Company for annual and interim accounting periods beginning in January 1, 2007.

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

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

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

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

The above were adopted by the Company effective January 1, 2007. As a result of our adopting these new standards, a new line item entitled, "accumulated other comprehensive (loss) income", forms part of our shareholders' equity section of our balance sheet.

As at March 31, 2007, the balance of our accumulated other comprehensive (loss) income is nil, as the Company did not have any items that required inclusion. Further, as at March 31, 2007, the Company did not have any hedges. (see note 4 of the interim financial statements).

### **Financial Instruments**

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

### **Off Balance sheet items**

*The Company does not have any off balance sheet items.*

### **Outstanding Share Data**

As at June 30, 2007, there were 108,285,209 common shares outstanding. A total of 68,024,123 share purchase warrants, 3,181,580 Agents options and 9,020,000 stock options were also outstanding, which are described in detail in notes 9(b), 9(d) and 9(f) to the interim financial statements. Subsequent to the quarter ended June 30, 2007, the company issued 49,235,084 shares;

On May 4, 2007, 3,180,325 warrants expired without being exercised. On May 4, 2007, 567,568 agents' options expired without being exercised.

As at August 24, 2007, the Company's outstanding share data was as follows:

Common shares outstanding: 157,520,296

Share purchase warrants:

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

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

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

17,538,334 at an exercise price of \$0.25 per share and an expiry date of December 30, 2008.

30,531,334 at an exercise price of \$0.35 per share and an expiry date of December 30, 2008

Stock options: 9,020,000

Agent's options: 511,163

### **Risk Factors/ Trends**

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

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

objective of developing its geothermal projects. The following are some of the risk factors that should be given consideration.

*Exploration and Development Risks*

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

*Insurance*

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

*Prices, Markets and Marketing of Geothermal/ Renewable Energy*

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

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

*Substantial Capital Requirements; Liquidity*

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

*Environmental Risks*

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

*Issuance of Debt*

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

#### *Exchange Rate Fluctuations*

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

#### Oversight Role of the Audit Committee

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

#### Changes in Internal Controls over Financial Reporting

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

In accordance with the requirements of Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (MI 52-109), we report that during the period ended June 30, 2007, there were no changes that occurred in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

#### Additional Information

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