

Consolidated Financial Statements
(Expressed in Canadian dollars)

WESTERN GEOPower CORP.

Years ended December 31, 2007 and 2006



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Western GeoPower Corp. as at December 31, 2007 and 2006 and the consolidated statements of operations and comprehensive loss, shareholders' equity 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

March 28, 2008

WESTERN GEOPOWER CORP.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 15,918,714	\$ 1,325,698
Amounts receivable	93,184	36,180
Prepaid expenses and deposits	232,094	147,583
	16,243,992	1,509,461
Equipment (note 4)	150,788	187,906
Geothermal properties (note 5)	35,770,508	32,030,012
Reclamation deposit (note 5)	247,525	150,000
Deposit (note 14)	1,298,175	-
	\$ 53,710,988	\$ 33,877,379
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,503,195	\$ 288,129
Long term debt (note 7)	833,078	833,078
Provision for site reclamation and closure costs (note 9)	569,528	587,146
Future income taxes (note 12)	3,483,117	4,287,850
Shareholders' equity:		
Share capital (note 10)	54,164,237	34,471,513
Contributed surplus (note 11)	7,954,288	6,486,552
Deficit	(14,796,455)	(13,076,889)
	47,322,070	27,881,176
Nature of operations (note 1)		
Commitments and contingencies (notes 5 and 14)		
Subsequent events (notes 5(b), 10(d), 10(f) and 14)		
	\$ 53,710,988	\$ 33,877,379

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

"Kenneth MacLeod" Director

"John Copeland" Director

WESTERN GEOPower CORP.

Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

	2007	2006
Expenses:		
Advertising and promotion	\$ 273,772	\$ 50,732
Amortization and accretion	33,992	66,544
Consulting and advisory fees	94,427	83,288
General and administrative	144,775	151,444
Foreign exchange (gain) loss	(289,796)	790
Directors' fees (note 8)	88,500	69,500
Finance costs (note 6)	-	150,000
Interest and bank charges (note 6)	3,401	124,573
Management fees (note 8)	375,000	97,500
Professional fees	57,201	88,099
Regulatory fees, transfer agents and shareholder communications	37,206	96,972
Rent	61,893	41,209
Salaries	352,689	353,872
Stock-based compensation (note 10 (e))	1,502,314	1,011,945
Travel and related	124,460	58,530
Loss on disposal of assets	1,777	908
Loss before the undernoted	(2,861,611)	(2,445,907)
Interest income	301,133	31,308
Loss before income taxes	(2,560,478)	(2,414,599)
Future income tax recovery (note 12)	840,912	1,413,628
Loss for the year	(1,719,566)	(1,000,971)
Other comprehensive income (loss)	-	-
Net loss, being comprehensive loss for the year	\$ (1,719,566)	\$ (1,000,971)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding	136,406,725	88,781,053

See accompanying notes to the consolidated financial statements.

WESTERN GEOPOWER CORP.

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

Years ended December 31, 2007 and 2006

	2007	2006
Common Shares		
Balance, beginning of year	\$ 34,471,513	\$ 33,926,741
Exercise of warrants net of issue costs	12,611,271	-
Exercise of Agents options	625,562	-
Private placement net of issue costs	6,214,291	2,609,938
Future income tax effect on renouncing flow-through share proceeds	-	(2,065,166)
Exercise of stock options	141,200	-
Fair value of stock options upon exercise transferred from contributed surplus	100,400	-
Balance, end of year	54,164,237	34,471,513

Contributed Surplus

Balance, beginning of year	6,486,552	5,405,958
Fair value of stock compensation	1,568,136	1,080,594
Fair value of stock options upon exercise transferred to share capital	(100,400)	-
Balance, end of year	7,954,288	6,486,552

Accumulated Deficit

Balance, beginning of year	(13,076,889)	(12,075,918)
Loss for the year	(1,719,566)	(1,000,971)
Balance, end of year	(14,796,455)	(13,076,889)

Total shareholders' equity	\$ 47,322,070	\$ 27,881,176
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See accompanying notes to the consolidated financial statements.

WESTERN GEOPOWER CORP.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (1,719,566)	\$ (1,000,971)
Items not involving cash:		
Amortization and accretion	33,992	66,544
Amortization of deferred finance costs	-	150,000
Loss on disposal of assets	1,777	908
Stock-based compensation	1,502,314	1,011,945
Future income tax recovery	(840,912)	(1,413,628)
	(1,022,395)	(1,185,202)
Changes in non-cash operating working capital:		
Amounts receivable	(57,004)	74,632
Prepaid expenses and deposits	(84,511)	(51,353)
Accounts payable and accrued liabilities	22,141	(381,570)
	(1,141,769)	(1,543,493)
Financing:		
Cash proceeds from issuance of share capital, net of issuance costs	19,592,324	7,534,639
Repayment on short term loan	-	(2,000,000)
	19,592,324	5,534,639
Investments:		
Geothermal property costs, net of accounts payable and accrued liabilities	(2,455,928)	(2,769,933)
Purchase of equipment	(6,411)	(3,932)
Deposit on purchase of equipment	(1,298,175)	-
Proceeds on disposal of equipment	500	1,000
Reclamation deposit	(97,525)	-
	(3,857,539)	(2,772,865)
Increase in cash and cash equivalents	14,593,016	1,218,281
Cash and cash equivalents, beginning of year	1,325,698	107,417
Cash and cash equivalents, end of year	\$ 15,918,714	\$ 1,325,698
Supplementary cash flow information:		
Income taxes paid	\$ -	\$ -
Interest paid	-	124,573
Interest received	301,133	31,308
Non-cash financing and investing activities:		
Stock-based compensation capitalized to geothermal property	65,822	68,649
Future income taxes on stock-based compensation and capital asset amortization capitalized to geothermal property	36,179	49,415
Amortization of equipment capitalized to geothermal property	31,995	41,340
Fair value of stock options transferred to share capital from contributed surplus on exercise of options	100,400	-
Geothermal property costs included in accounts payable and accrued liabilities	1,299,034	106,110
Reduction of short term loan by way of issuing 6,666,667 common shares (note 10(b)(i))	-	1,000,000
Shares issued as consideration for financing fees (note 6)	-	150,000

See accompanying notes to the consolidated financial statements.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

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 1 Geysers Project located at the Geysers Geothermal Field in Northern California. The underlying value of the geothermal properties and the recoverability of the related deferred costs are entirely dependent on the existence of one or more economic projects and the Company's ability to obtain the necessary financing to complete development, achieve future profitable production and secure and maintain the appropriate permits, rights and beneficial interest in the properties.

These financial statements have been prepared on the basis that the Company will continue as a going concern. At December 31, 2007, the Company had working capital of \$14,740,797. Management recognizes that the Company will need to generate additional financial resources in order to meet its planned business objectives. However, there can be no assurances that the Company will continue to obtain additional financial resources and/or achieve profitability or positive cash flows. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations and exploration activities. Furthermore, failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis which would differ significantly from the going concern basis.

2. Significant accounting policies:

(a) Basis of presentation:

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

(b) Cash and cash equivalents:

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

(c) Reclamation deposit:

The reclamation deposits are recorded at cost.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
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Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(d) Equipment:

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

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

(e) Geothermal properties:

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

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

(f) Asset retirement obligations:

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

(g) Income taxes:

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

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(h) Loss per common share:

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. For all periods presented, loss available to common shareholders equals the reported loss. Diluted loss per common share is calculated by the treasury stock method whereby the assumed proceeds of the dilutive exercisable instruments are applied to repurchase common shares at the average market price for the period. The resulting net issuance is included in the weighted average number for purposes of the diluted per share calculation. In the Company's case, all outstanding stock options and warrants are anti-dilutive (note 10), so there is no difference between basic and diluted loss per common share.

(i) Financial instruments:

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

(j) Foreign currency transactions:

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

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

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

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

The Company has a stock option plan that is described in note 10(d). The Company records all stock-based payments using the fair value method. Under the fair value method, stock-based payments for employees are measured at the fair value on the date of grant and stock-based payments to non-employees are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable and are amortized over the vesting period. The offset to the recorded cost is to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital at the time of exercise.

WESTERN GEOPower CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(l) Share capital:

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

(m) Use of estimates:

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

(n) Flow-through shares:

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

3. Changes in accounting policies

(a) Newly adopted 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).

(i) 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 consolidated financial statements.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

3. Changes in accounting policies (continued)

(a) Newly adopted accounting policies (continued):

(ii) 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.

(iii) 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.

(iv) 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.

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 are initially measured at fair value and subsequent changes in fair value are recognized in the consolidated statement of operations.
- Available-for-sale financial assets are initially measured at fair value and 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.

WESTERN GEOPower CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

3. Changes in accounting policies (continued)

(a) Newly adopted accounting policies (continued):

(iv) Financial instrument - recognition and measurement - Section 3855 (continued):

- Held-to-maturity investments, loans and receivables, or other financial liabilities - all of which are initially measured at cost and subsequent changes 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, unless the instruments qualify for hedge accounting.

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

- Cash and cash equivalents, including \$3,400,000 held in U.S. dollars, 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.
- Reclamation deposits invested in government backed securities are classified as available-for-sale and are carried at fair 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 December 31, 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.

(v) 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.

(vi) 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.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

3. Changes in accounting policies (continued)

(b) Accounting policies not yet adopted:

(i) Going concern - Section 1400:

Effective January 1, 2008 the Company will be implementing the amended CICA Handbook Section 1400, general standards of financial statement presentation, to include requirements for management to assess and disclose the entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

(ii) Financial instruments - disclosure - Section 3862 and presentation - Section 3863:

These standards replace CICA 3861, financial instruments - disclosure and presentation. They increase the disclosure currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to entity's key management personnel. This standard is effective for the Company for interim and annual periods beginning on or after January 1, 2008.

(iii) Capital disclosures - Section 1535:

This standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual periods relating to fiscal years beginning on or after January 1, 2008.

The Company does not believe that the impact of the above new accounting standards on the Company's financial positions and results of operations will have a material effect.

4. Equipment:

2007	Cost	Accumulated amortization	Net book value
Furniture and fixtures	\$ 30,042	\$ 17,281	\$ 12,761
Computer equipment	48,095	38,514	9,581
Camp and field equipment	201,715	86,564	115,151
Vehicles	40,254	26,959	13,295
	\$ 320,106	\$ 169,318	\$ 150,788

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

4. Equipment (continued):

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

5. Geothermal property:

Expenditures incurred on the geothermal properties to date are follows:

	2007	2006
South Meager geothermal project (note 5(a))	\$ 31,732,107	\$ 31,483,600
Leasehold at the Geysers Geothermal Field (note 5(b))	4,038,401	546,412
	<u>\$ 35,770,508</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 for a term of 10 years expired June 30, 2007. The license was renewed for another 10 years expiring June 30, 2017. The Company accrues site reclamation and closure obligations over the life of the property commencing once an estimate of the obligation is determined. Upon the renewal of the license for an additional 10 years, the life of the property increased and accordingly the Company adjusted the previously booked liability by a decrease to geothermal property costs by \$42,352, decrease in the liability for site reclamation and closure costs booked to date by \$66,658 and recorded a \$24,306 decrease to the accretion expense to reflect the revised obligations over the new extended life of the property.

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 Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

5. Geothermal property (continued):

(a) South Meager Geothermal Project (continued):

Expenditures incurred on the geothermal property for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Balance, beginning of year:	\$ 31,483,600	\$ 30,728,270
Costs incurred during the year:		
Lease permits and occupancy	42,670	42,670
Project management	-	140,162
Camp office and administration	62,652	130,600
Drilling and testing	35,954	229,649
Road maintenance and snow removal	-	3,410
Community stakeholder relations	45,033	44,992
Environmental review	2,550	45,783
Stock-based compensation (note 10(e))	65,822	68,649
Future income taxes on stock-based compensation and capital asset amortization	36,179	49,415
Provision for site reclamation and closure costs (note 5(a))	(42,353)	-
	248,507	755,330
Balance, end of year	\$ 31,732,107	\$ 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 9). The required deposit under the Act is supported by a term deposit held by the Company in the amount of \$150,000.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

5. Geothermal property (continued):

(b) Leasehold at The Geysers:

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

On October 6, 2006, the Company entered into a second lease for an additional 140 acres contiguous to the Company's leasehold at the Geysers Geothermal 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 Company's leasehold at the Geysers Geothermal Field leased area (separate lease) there is no change in the annual compensation amount.

On February 7, 2007, the Company entered into a third lease adding an additional 74 acres contiguous to the Company's leasehold at the Geysers Geothermal 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 Company's leasehold at the Geysers Geothermal Field leased area (separate lease) there is no change 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 Company's leasehold at the Geysers Geothermal 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 October 12, 2006, upon completion of a feasibility report prepared by an independent consultant, the Company announced its intention to build a 25.5 megawatt (net) power plant at the Company's leasehold at the Geysers Geothermal Field. The feasibility report projects that the Company's leasehold at the Geysers Geothermal Field will commercially support a 25.5 megawatt power plant for a minimum of 20 years, with generation continuing at a slightly reduced output factor through 30 years.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

5. Geothermal property (continued):

(b) Leasehold at The Geysers (continued):

On December 21, 2007, the Company signed a letter of intent to purchase a steam turbine generator for the proposed 35 megawatt Unit 1 Project from Fuji Electric Company of America. In order to secure the order the Company paid a deposit in the amount of \$1,298,175. The amount is recorded as a long-term deposit. Subsequent to the year ended December 31, 2007, the Company executed the contract with Fuji.

The Company is contingently liable for the site restoration of the geothermal property under the regulations of the California Division of Oil, Gas and Geothermal Resources (CDOGGR). The public resources code requires operators to file a bond to cover such liabilities. The required deposit under the code is supported by a term deposit held by the Company in the amount of USD\$100,000.

Expenditures incurred on the Leasehold at The Geysers Geothermal Field are as follows:

	2007	2006
Balance, beginning of year:	\$ 546,412	\$ -
Costs incurred during the year:		
Leases	136,620	123,465
Project management	452,820	101,226
Project development	285,890	28,117
General administration and project travel	158,590	45,263
Insurance	78,909	43,843
Professional fees; title and land search	156,694	24,755
Resource assessment and feasibility report	6,557	51,758
Environmental and legal review for power sales bids	56,164	94,109
Project finance	62,153	13,303
Environmental - permitting and project development	274,989	20,574
Interconnection - transmission studies	91,360	-
Civil Engineering	163,100	-
Drilling supplies and materials	1,568,143	-
	3,491,989	546,412
Balance, end of year	\$ 4,038,401	\$ 546,412

6. Short term debt:

On December 30, 2005, the Company modified an agreement with Quest Capital Corp. (Quest), to provide for the repayment of \$3,000,000 of the principal amount of a loan then payable by the Company to Quest, and the extension of the maturity date in respect of \$1,000,000 principal amount of the loan to December 15, 2006. On January 9, 2006, the Company repaid \$2,000,000 on this loan. On January 17, 2006, in consideration for the extension of the term of the loan the Company issued 1,000,000 common shares to Quest.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

6. Short term debt (continued):

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

On December 15, 2006, the Company issued 6,666,667 units to Quest in consideration for a \$1,000,000 (note 10(b)(i)) reduction in 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.

7. 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. Accordingly, accrual of interest commenced on December 31, 2007. At the option of the Company, earlier payment is permitted.

8. Related party transactions:

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

	2007	2006
Management fees (a)	\$ 490,000	\$ 187,500
Consulting fees (b)	137,820	74,801

(a) \$115,000 (2006 - \$90,000) of management fees is included in geothermal property costs; management fees of \$490,000 include bonuses in the amount of \$230,000 (2006 - nil)

(b) \$137,820 (2006 - \$74,801) in consulting fees paid to directors of the company; \$137,820 (2006 - \$56,226) of these fees are included in geothermal property costs.

(c) \$53,500 (2006 - \$43,500) was paid in directors fees; \$10,000 (2006-\$6,000) in fees were paid to members of the Audit committee and compensation committee members. Audit committee and Compensation committee members are paid a fee of \$500 per committee meeting attended; and the chairman of each committee is paid a fee of \$1,000 per committee meeting chaired; in addition, \$25,000 (2006 -\$20,000) in bonus was paid to a director.

Included in the accounts payables and accrued liabilities at December 31, 2007 are amounts payable for management fees in the amount of \$30,000.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

9. Provision for site reclamation and closure costs:

	2007	2006
Balance, beginning of year	\$ 587,146	\$ 533,770
Change in estimate of provision (note 5(a))	(66,658)	-
Accretion expense	49,040	53,377
Balance, end of year	\$ 569,528	\$ 587,146

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 \$1,445,500 to be expended to 2017 at a discount rate of 10% to 12% and inflation factor of 2.0%.

10. Share capital:

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

(b) Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2005	87,106,875	\$ 33,776,741
Issued pursuant to finance fee on short term loan extension	1,000,000	150,000
Issued for cash on private placement, net of issuance costs (note 10(b)(i))	17,538,334	2,609,938
Future income tax effect of renouncing flow-through share proceeds expensed (note 10(c))	-	(2,065,166)
Balance, December 31, 2006	105,645,209	34,471,513
Issued for cash on private placement, net of issuance costs (note 10(b)(ii))	25,000,000	6,214,291
Issued for cash on exercise of warrant incentive program net of issuance costs (note 10(f))	30,531,334	7,623,687
Issued for cash on exercise of warrants (note 10(f))	19,950,334	4,987,584
Issued for cash on exercise of options (note 10(d))	5,060,416	766,762
Fair value of stock options upon exercise transferred from contributes surplus	-	100,400
Balance, December 31, 2007	186,187,293	\$ 54,164,237

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

10. Share capital (continued):

(b) Issued and outstanding (continued):

- (i) 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 was comprised of one share and one warrant to purchase one additional common share at an exercise price of \$0.25 per share until December 30, 2008. The \$1,000,000 proceeds from Quest's participation in the financing were applied to the short term loan due to Quest.
- (ii) On September 5, 2007, the Company closed a \$6,250,000 non-brokered private placement for net proceeds of \$6,214,291. As a result, the Company issued 25,000,000 shares at \$0.25 per share.

(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 to the renouncement.

(d) Stock options:

The Company has a share option plan approved by the shareholders that allows it to grant incentive stock options for the purchase of common shares of the Company to persons in consideration for services. Stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 10% of the issued shares of the Company at the time of granting and may not exceed 5% to any individual (maximum of 2% to any consultant). The exercise price of stock options is determined by the Board of Directors of the Company at the time of grant, but cannot be less than market price, less permissible discounts, on the TSX Venture Exchange. Options have a maximum term of five years and terminate 90 days following the termination of the optionee's employment, except in the case of retirement, death or disability, in which case the options terminate one year after the event. Vesting of options is made at the time of granting of the options at the discretion of the Board of Directors. Once approved and vested, options are exercisable at any time. During the year ended December 31, 2007, the Company granted 8,275,000 options to employees, consultants, directors and officers of the Company.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

10. Share capital (continued):

(d) Stock options (continued):

The continuity of the Company's stock options for the year ended December 31, 2007, all of which are exercisable at December 31, 2007, is as follows:

Exercise price	Expiry date	Balance December 31, 2006	Granted	Exercised	Forfeited	Balance December 31, 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	-	-	(75,000)	100,000
\$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	-	-	(100,000)	1,565,000
\$0.15	December 30, 2008(i)	4,170,416	-	(4,170,416)	-	-
\$0.22	February 17, 2011	5,130,000	-	(50,000)	(150,000)	4,930,000
\$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	-	(840,000)	-	1,010,000
\$0.32	May 30, 2012	-	300,000	-	-	300,000
\$0.30	September 12, 2012	-	300,000	-	-	300,000
\$0.27	September 20, 2012	-	7,675,000	-	-	7,675,000
		14,609,147	8,275,000	(5,060,416)	(917,568)	16,906,163
Weighted average exercise price		\$0.33	\$0.27	\$0.15	\$1.26	\$0.30
Contractual weighted average remaining life (years)		3.26				3.84

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

During the year ended December 31, 2007, 890,000 options were exercised by employees, officers and directors of the Company.

During the year ended December 31, 2007, 4,170,416 Agents options at \$0.15 were exercised. On May 4, 2007, 567,568 Agents 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 September 12, 2007, the Company granted 300,000 stock options to a newly appointed director at the market close on September 12, 2007 of \$0.30 per share for a period of five years under the stock option plan.

On September 20, 2007, the Company granted 7,675,000 stock options to directors, officers, employees and consultants at the market close of \$0.27 per share for a period of five years under the stock option plan.

On February 11, 2008, the Company granted 500,000 stock options to a consultant at the market close of \$0.35 per share for a period of five years under the stock option plan.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

10. Share capital (continued):

(d) Stock options (continued):

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

Exercise price	Expiry date	Balance December 31, 2005	Granted	Exercised	Forfeited	Balance December 31, 2006
\$0.35	October 17, 2008	40,000	-	-	-	40,000
\$0.35	January 20, 2009	75,000	-	-	-	75,000
\$0.35	March 16, 2009	25,000	-	-	-	25,000
\$0.35	May 4, 2009	175,000	-	-	-	175,000
\$1.85	May 4, 2007	567,568	-	-	-	567,568
\$1.00	April 22, 2008	511,163	-	-	-	511,163
\$0.35	September 16, 2010	1,665,000	-	-	-	1,665,000
\$0.15	December 30, 2008	4,170,416	-	-	-	4,170,416
\$0.22	February 17, 2011	-	5,130,000	-	-	5,130,000
\$0.28	March 31, 2011	-	300,000	-	-	300,000
\$0.17	August 23, 2011	-	100,000	-	-	100,000
\$0.155	December 19, 2011	-	1,850,000	-	-	1,850,000
		7,229,147	7,380,000	-	-	14,609,147
Weighted average exercise price		\$0.46	\$0.21	-	-	\$0.33
Contractual weighted average remaining life (years)		3.20				3.26

(e) Stock-based compensation:

The weighted average fair value of options granted during 2007, being \$0.19 (2006 - \$0.15) per option, was estimated using the Black-Scholes option pricing model with the following assumptions; risk free interest rate of 4.31% (2006 - 4.06%); expected dividend yield of 0% (2006 - 0%); volatility factor of 79.63% (2006 - 88.78%) and an expected life of 5 years (2006 - 5 years). Under this method of calculation, the fair value of all options granted during 2007 amounted to \$1,568,136 (2006 - \$1,080,594), of which \$65,822 (2006 - \$68,649) has been capitalized as geothermal property cost and \$1,502,314 (2006 - \$1,011,945) has been recorded in the statement of operations.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

10. Share capital (continued):

(f) Share purchase warrants:

The continuity of the Company's warrants for the years ended December 31, 2007 and 2006 is as follows:

Exercise price	Expiry date	Balance December 31, 2006	Issued during the year	Exercised/ expired	Balance December 31, 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	-	(34,893,334)	13,600,133
\$0.25	December 30, 2008	17,538,334	-	(15,588,334)	1,950,000
\$0.25	December 30, 2008	-	4,170,416	-	4,170,416
\$0.35	December 30, 2008	-	30,531,334	-	30,531,334
		70,204,448	34,701,750	(53,661,993)	51,244,205

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

During the year ended December 31, 2007, 4,170,416 agents' options at \$0.15 were exercised for proceeds of \$625,562 pursuant to an agent option agreement dated December 2005. Under the terms of the agreement, the agent also received 4,170,416 warrants to acquire one common share of the Company at \$0.25 per share until December 30, 2008. On May 4, 2007 3,180,325 warrants expired without being exercised.

During the year ended December 31, 2007, 19,950,334 free trading warrants were exercised at a price of \$0.25 per share for gross proceeds of \$4,987,584.

On July 18, 2007, the Company announced a warrant incentive program. In order to encourage the early exercise of warrants, the Company amended the December 2005 and December 2006 warrants so that upon payment of the applicable exercise price of \$0.25 per warrant, the holder will receive one unit instead of one common share. The new units consisted of one common share and one additional warrant. Each warrant allows the holder to acquire one common share at a price of \$0.35 per share until December 31, 2008. The newly issued warrants are transferable. The warrants issued under the incentive program are also subject to an acceleration provision, which provided that 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. During the year ended December 31, 2007, 30,531,334 units (the Units) were issued to other subscribers pursuant to the warrant exercise incentive program for net proceeds of \$7,623,687.

WESTERN GEOPower CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

10. Share capital (continued):

(f) Share purchase warrants (continued):

Subsequent to the year ended December 31, 2007, an additional 200,000 warrants were exercised at a price of \$0.25 per share for gross proceeds of \$50,000.

11. Contributed surplus:

Balance, December 31, 2005	\$	5,405,958
Fiscal 2006 stock-based compensation (note 10(e))		1,080,594
Balance, December 31, 2006		6,486,552
Fiscal 2007 stock-based compensation (note 10(e))		1,568,136
Stock options exercised, credited to share capital		(100,400)
Balance, December 31, 2007	\$	7,954,288

12. Income taxes:

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2007	2006
Loss before income taxes	\$ (2,584,784)	\$ (2,414,599)
Statutory rates	34.12%	34.12%
Income tax recovery at statutory rates	\$ 881,928	\$ 823,861
Permanent differences	(466,439)	(378,629)
Change in future corporate tax rates	210,047	89,096
Change in valuation allowance	215,375	879,300
Future income tax recovery	\$ 840,912	\$ 1,413,628

During the year ended December 31, 2007, the Canadian government enacted amendments to current tax legislation, which provided for a reduction in future corporate tax rates.

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

12. Income taxes (continued):

The significant components of the Company's future income tax assets and liabilities at December 31, 2007 and 2006 are as follows:

	2007	2006
Future tax assets:		
Non-capital loss carry forwards	\$ 2,441,000	\$ 2,286,000
Geothermal property	95,000	94,000
Share issuance costs and other	278,000	497,000
Total future tax assets	2,814,000	2,877,000
Valuation allowance	(1,613,325)	(1,828,700)
Net future tax assets	1,200,675	1,048,300
Future tax liabilities:		
Geothermal property	4,683,792	5,336,150
Net future tax liabilities	\$ 3,483,117	\$ 4,287,850

At December 31, 2007, the Company has available losses for tax purposes in Canada of approximately \$9,000,000 (2006 - \$7,300,000) which can be applied to reduce taxable income until 2027.

13. Segmented information:

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

2007	Canada	United States	Total
Current assets	\$ 16,147,167	\$ 96,825	\$ 16,243,992
Equipment	150,788	-	150,788
Geothermal property	31,732,107	4,038,401	35,770,508
Reclamation deposit	150,000	97,525	247,525
Deposit	-	1,298,175	1,298,175
Total assets	48,180,062	5,530,926	53,710,988
Current liabilities	211,130	1,292,065	1,503,195
Long-term liabilities	3,593,660	1,292,063	4,885,723
Interest and other income	301,133	-	301,133
Loss for the period	(1,719,566)	-	(1,719,566)

WESTERN GEOPOWER CORP.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2007 and 2006

13. Segmented information (continued):

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

14. Commitments:

The Company entered into a new lease for its corporate office effective August 1, 2006 until expiry of July 31, 2008. Effective July 1, 2007 the Company entered into a lease for storage until expiry May 31, 2010. Minimum commitments for the leases are as follows:

2008	\$ 55,920
2009	21,312
2010	8,880
	\$ 86,112

On December 21, 2007, the Company signed a letter of Intent to purchase a steam turbine generator for the Unit 1 Project from Fuji Electric Company of America (Fuji). In order to secure the order the Company paid a deposit in the amount of \$1,298,175 which is recorded in long-term deposits. Subsequent to the year ended December 31, 2007, the Company executed the contract with Fuji for the purchase of one 35 MW Steam Turbine Generator Unit in the amount of USD\$13,665,000 for delivery to the Unit 1 project site in August 2009. The contract requires progress payments throughout the various stages of completion expected to be as follows.

2008	USD\$ 5,192,700
2009	7,174,125
	USD\$ 12,366,825



Management's Discussion and Analysis

For the year ended December 31, 2007

WESTERN GEOPOWER CORP.

Management's Discussion and Analysis
For the year ended December 31, 2007
(Expressed in Canadian dollars)

The following Management's Discussion and Analysis of Western GeoPower Corp., (the "Company") dated as at April 23, 2008, should be read in conjunction with the audited consolidated financial statements including the notes thereto for the years ended December 31, 2007 and 2006. 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 four geothermal leases totaling over 1,000 acres in The Geysers Geothermal Field in California, United States, where the Company is developing the Western GeoPower Unit 1 geothermal project. 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 Exchange under the symbol WE6.F.

Project Update:

Western GeoPower UNIT 1 Project – The Geysers Field, California

During 2007, the Company focused its attention on its Western GeoPower Unit 1 project located within The Geysers Geothermal Field in Northern California. The Company increased its leasehold at The Geysers from the initial 421 acres acquired in June 2006 to a current total of 1,017 acres under four lease agreements. The leases grant the Company the right to re-develop the geothermal reservoir and build a new plant for electricity generation. It was initially anticipated that one power plant would process steam production from the first two leaseholds. Subsequently, it was determined that the potential existed for an increase in capacity of the initial plant or the construction of a second plant on the expanded leasehold.

The Company retained consultants GeothermEx, Inc. to provide an independent assessment of the resource on the combined leasehold. The report is based on a large database of resource information and demonstrated production history on the former PG&E Unit 15 leasehold, (as a portion of the Western GeoPower Unit 1 leasehold was previously known). In the report dated October 2006, GeothermEx, Inc. projected that the Unit 1 leasehold, comprising approximately 600 acres at that date, would commercially support a 28 megawatt (gross) [25.5 megawatt (net)] power plant for a minimum of 20 years, with generation continuing at a slightly reduced factor through 30 years. In June 2007, the leasehold was increased by 413 acres to 1,017 acres. Earlier production records from the extended leasehold showed one well that had an initial capacity of 7 megawatts, suggesting the potential for an increase in capacity beyond 25.5 megawatts (net) for the proposed Unit 1 power plant, or the possibility of a second plant should additional capacity be demonstrated. On April 9, 2008, the Company announced that a review by GeothermEx, Inc. on the expanded 1,000 acre leasehold had determined that the optimum capacity for the Western GeoPower Unit 1 power plant had increased to 35 megawatt (gross).

The proposed 35 megawatt plant is expected to have a 95% availability factor. Total development costs, including power plant, gathering system, transmission system, administrative and finance charges, are being updated to reflect the cost of the larger plant and will be completed in the second quarter of 2008. The majority of the equity component of project financing for the Unit 1 project was accomplished during 2007 through the exercise of warrants and a private placement raising a total of \$18.8 million. Additional equity injections are expected to be secured through the exercise of outstanding warrants which expire in December 2008. The balance of project financing is anticipated to be secured during 2008 and early 2009, through a combination of construction loan and long-term debt financing.

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 late 2007, the California Division of Oil, Gas and Geothermal Resources approved the environmental process for the drilling of up to six wells on four existing pads and utilizing existing roads. The Company also received the Conditional Use Permit from Sonoma County, along with related State and County permits required to commence the six-well drilling program. Permitting for additional wells beyond the initial six is being applied for under a separate application to Sonoma County for a Conditional Use Permit to construct the power plant, with approval projected for late 2008 or early 2009.

The drilling program has been designed by independent consultants GeothermEx, Inc., which also provides strategic management of the ongoing drilling program. Drilling of the first well WGP-1 commenced early March 2008, with a projected 90 day period to complete drilling and testing. Completion of the first well is anticipated before the end of May 2008.

The wells are being directionally drilled from existing drill pads to intersect target zones where commercial steam productivity was encountered by previous production wells. The average total vertical depth per well is anticipated to be 8,000 - 9,000 feet (approximately 2,400 – 2,700m) with the maximum total measured depth expected to be approximately 11,000 feet (3,350m).

In April 2008, the Company announced that it had signed an agreement with Fuji Electric Corporation of America (“Fuji”) for the purchase of one 35 MW Steam Turbine Generator Unit for delivery to the Unit 1 project site in August 2009.

In May 2007, the Company signed 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 proposed Western GeoPower Unit 1 25.5 Megawatt (net) geothermal power plant, scheduled to come on line in 2010. On February 8, 2008, the Company announced that it had exercised its right to terminate the PPA with PG&E as California Public Utilities Commission approval had not been received within the time-frame stipulated in the PPA. The termination of the PPA with PG&E will not affect the projected start of commercial operations in early 2010.

Chile

On April 10, 2008, the Company announced the launching of operations in Chile, South America, with the incorporation of a wholly-owned Chilean subsidiary and the opening of an office in Santiago. In conjunction with the launch of operations, the Company has submitted bids to the Chilean Ministry of Mines for the acquisition of three geothermal exploration concessions in the north of Chile that were presented for competitive bidding by the Ministry.

South Meager Geothermal Project, British Columbia

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 expiring June 30, 2017. The Company is conducting a resource confirmation program (drilling; well testing and evaluation) on the project to determine its economic viability.

During 2006, the Company performed a series of temperature surveys. Data from these surveys was analyzed by GeothermEx, Inc., of Richmond, California, technical consultant for the South Meager project. The surveys showed that the wells had continued to heat up in comparison to surveys of November 2005. MC-6 showed continued recoverability 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 had 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 continued to heat up in comparison to surveys of November 2005.

Testing of the resource confirmation wells is incomplete at this time and has not yet demonstrated the production capacities of the wells. During 2007 the Company did not have the opportunity to conduct further tests and surveys, due to the unavailability of the technical expertise required for testing. Management intends to continue the testing of the resource confirmation wells during the second half of 2008.

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

Annual Financial Information

FOR THE YEARS ENDED DECEMBER 31	2007	2006	2005
FINANCIAL RESULTS			
INTEREST INCOME	\$ 301,133	\$ 31,308	\$ 62,233
NET LOSS	(1,719,566)	(1,000,971)	(3,153,144)
LOSS PER SHARE (Basic and diluted)	\$ (0.01)	\$ (0.01)	\$ (0.09)
FINANCIAL POSITION			
WORKING CAPITAL	\$ 14,740,797	\$ 1,221,332	\$ 941,867
GEOHERMAL PROPERTY	35,770,508	32,030,012	30,728,270
TOTAL ASSETS	53,710,988	33,877,379	37,507,819
LONG-TERM LIABILITIES	4,885,723	5,708,074	4,953,745

Quarterly Financial Information

FISCAL QUARTER - ENDED	4 th Quarter Dec 31, 2007	3 rd Quarter Sept 30, 2007	2 nd Quarter June 30, 2007	1 st Quarter Mar 31, 2007
INTEREST INCOME	\$228,656	\$56,847	\$7,662	\$ 7,968
NET INCOME (LOSS)	544,479	(1,821,663)	(292,212)	(150,170)
INCOME (LOSS) PER SHARE	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.00)

FISCAL QUARTER - ENDED	4 th Quarter Dec 31, 2006	3 rd Quarter Sept 30, 2006	2 nd Quarter June 30, 2006	1 st Quarter Mar 31, 2006
INTEREST INCOME	\$ 4,897	\$ 7,061	\$ 11,316	\$ 8,034
NET INCOME (LOSS)	102,606	(210,758)	211,212	(1,104,031)
INCOME (LOSS) PER SHARE	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)

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 first quarter of 2006 (\$809,677), and in quarter three of 2007 (\$1,437,475). The other significant variance is due to the finance costs in 2006 (2007-Nil) and interest expense incurred in 2006 from the loan from Quest.

Results of Operations

For the year ended December 31, 2007, the Company incurred a loss of \$1,719,566 (\$0.01 per share) compared to a loss of \$1,000,971 (\$0.01 per share) for the year ended December 31, 2006.

Summary Data:	Year ended December 31, 2007	Year ended December 31, 2006
Interest income	\$ 301,133	\$ 31,308
Future income tax recovery	840,912	1,413,628
Administrative expense	(1,359,297)	(1,163,522)
Finance charges	-	(150,000)
Interest on loan	-	(120,440)
Stock-based compensation expense	(1,502,314)	(1,011,945)
Loss for the period	\$ (1,719,566)	\$ (1,000,971)

During the year ended December 31, 2007, the Company granted 8,275,000 stock options to directors, officers, employees and consultants. The fair value of the options granted during the period amounted to \$1,568,136, of which \$65,822 had been capitalized as geothermal property costs and \$1,502,314 has been reflected in the statement of operations. During the year ended December 31, 2007, 350,000 (2006 – Nil) of previously granted options to an employee were forfeited due to termination of employment.

During the year ended December 31, 2006, the Company granted 7,380,000 stock options to directors, officers, employees and consultants. The fair value of the options granted during the period

amounted to \$1,080,594, of which \$68,649 has been capitalized as geothermal property costs and \$1,011,945 has been reflected in the statement of operations

On December 30, 2005, the Company modified the agreement with Quest, to provide for the repayment of \$3,000,000 of the principal amount of the loan, and the extension of the maturity date in respect of the remaining \$1,000,000 principal amount of the loan to December 15, 2006. On January 17, 2006, in consideration for the extension of the term of the loan Quest received a non-refundable bonus in the amount of \$150,000 payable in the form of 1,000,000 common shares. During the year ended December 31, 2006, the Company recorded total finance costs related to the cost of these shares in the amount of \$150,000 (2007 – Nil). In addition the Company recorded interest expense paid on the loan in the amount of \$120,440 (2007- Nil). On December 15, 2006, the Company issued 6,666,667 Units to Quest in the financing at \$0.15 for proceeds of \$1,000,000. The proceeds were applied to the remaining balance on the loan and the Company received a complete discharge from Quest over the assets previously pledged as general security on the loan.

During the year ended December 31, 2007, overall administrative expenses increased by \$195,775 (17%) to \$1,359,297 (2006-\$1,163,522). The most significant increase was a \$223,040 (440%) increase in advertising, promotion, conferences and marketing costs to \$273,772 (2006-\$50,732). Majority of the increase was the result of extensive European promotion, advertising and conferences. The balance of the increase of \$53,690 is attributed to fees paid to a marketing firm (2006- Nil) during the period ended. Travel costs increased by \$65,930 (113%) to \$124,460 (2006-\$58,530) related to conferences and road shows.

During the year ended December 31, 2007, general and administrative expense decreased by \$6,669 (4%) to \$144,775 (2006-\$151,444), due to a credit received for charges expensed in late 2006. management fees increased by \$277,500 (285%) to \$375,000 (2006-\$97,500) 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 5). Upon signing of the contract the CEO was awarded a signing bonus of \$50,000, which was used to exercise options in the Company. In addition during the year ended the CEO was awarded a bonus in the amount of \$180,000 (2006- Nil). Professional fees decreased by \$30,898 (35%) to \$57,201 (2006-\$88,099) due to significant non-recurring legal costs in 2006 incurred on short term loan and other one time Company matters. Rent expense increased by \$20,684 (35%) to \$61,893 (2006-\$41,209); Effective August 1, 2006 the Company entered into a new office lease for a period of 24 months to July 31, 2008. The increase in rent is a reflection of the increase in the market for commercial office space. Regulatory fees decreased by \$59,766 (62%) to \$37,206 (2006- \$96,972), due to the termination, de-registration of the Transfer Agent account in Norway in December of 2006.

The Company recorded a foreign exchange gain in the amount of \$289,796 (2006 – loss of \$790). During the last quarter of 2007, the Company purchased \$5.0M USD for current term expenditures which resulted in a foreign exchange gain in 2007.

During the year ended December 31, 2007, the Company recorded a recovery on future income tax of \$840,912 (2006-\$1,413,628), the difference between the Company's actual tax recovery of \$840,912 (2006-\$1,413,628) and the expected recovery calculated by applying statutory tax rates to the loss for year is due primarily to non-capital loss carry forwards for which no benefit has been recognized, stock-based compensation not deductible for tax purposes, and the change in future income tax rates from 31% to 27%. The Company recorded a loss on disposal of assets of \$1,777 (2006-\$908). The Company recorded Interest income of \$301,133 for the year ended December 31, 2007, (2006-\$31,308) comprised of interest earned on cash balances.

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

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.

During the year ended December 31, 2007, the Company raised a total of \$19,592,324 from the exercise of warrants, private placement and exercise of options.

A total of 50,481,668 warrants were exercised at a price of \$0.25 per share for gross proceeds of \$12,620,417. Of which 19,950,334 were free trading shares and 30,531,334 units (the "Units") were issued to other subscribers pursuant to the warrant exercise incentive program announced July 18, 2007. The Units comprise one common share at \$0.25 and one new warrant which will allow the holder to acquire one common share of the Company 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.

On September 5, 2007, the Company completed a \$6,250,000 non-brokered private placement for net proceeds of \$6,214,291. The Company issued 25,000,000 shares at \$0.25 per share to a strategic investor – Iceland-based geothermal developer, Geysir Green Energy. No commissions were paid with respect to the private placement. Following the transaction Geysir Green Energy became an insider of the Company, holding 34,333,334 common shares representing 18.8 per cent of the Company's outstanding shares.

On March 31, 2008 Geysir Green Energy acquired an additional 13,000,000 shares of the Company in the market. This acquisition brings Geysir Green Energy's total holdings to 47,333,334 common shares of the Company, representing 25.4% of the outstanding shares of the Company. In addition Geysir Green Energy holds 9,333,334 warrants exercisable to purchase one common share at \$0.35 and 4,000,000 warrants exercisable to purchase one common share at \$0.25. The warrants expire on December 30, 2008.

Dundee Securities exercised 4,170,416 Agents options at \$0.15 for proceeds of \$625,562 pursuant to an Agent Option agreement dated December 2005. Under the terms of the Agent Option agreement, Dundee also received 4,170,416 warrants to acquire one common share of Western GeoPower at \$0.25 per share until December 30, 2008. During the year ended December 31, 2007, a total of 890,000 options were exercised for gross proceeds of \$141,200.

At December 31, 2007, the Company had working capital of \$14,740,797. Subsequent to the year ended December 31, 2007, the company received gross proceeds in the amount of \$50,000 from the exercise of an additional 200,000 warrants at a price of \$0.25 per share. 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. Management has launched efforts to secure funding for the entire Unit 1 field and plant development.

Off Balance sheet items

The Company does not have any off balance sheet items.

Contractual Obligations:

Contractual Obligations:	Total	2008	2009	2010 and thereafter
Long-term debt	\$ 833,078	-	-	\$ 833,078
Site reclamation and closure costs	569,528	-	-	1,445,500
Office leases	86,112	55,920	21,312	8,880
Purchase of Turbine	13,665,000	5,192,700	7,174,125	-

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 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").

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 for the South Meager geothermal project are 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 December 21, 2007, the Company signed a letter of Intent to purchase a steam turbine generator for Unit 1 Project from Fuji Electric Company of America (Fuji). In order to secure the order the Company paid a deposit in the amount of USD\$1,298,175 the amount is recorded in long-term deposit. Subsequent to the year ended the Company executed the contract with Fuji for the purchase of one 35 MW Steam Turbine Generator Unit in the amount of USD 13,665,000 for delivery to the Unit 1 project site in August 2009. The contract requires progress payments throughout the various stages of completion.

Related Party Transactions

During the year ended December 31, 2007, the Company paid management fees to the President of the Company in the ordinary course of business amounting to \$260,000 (2006-\$187,000), of which \$115,000 (2006 - \$90,000) is included in geothermal property costs. In addition to management fees, during the year ended December 31, 2007, the President of the Company received bonuses in the

amount of \$230,000 (2006-Nil). During the year ended December 31, 2007, \$137,850 (2006-\$74,801) in consulting fees were paid to directors of the Company; \$137,820 (2006-\$56,226) of these fees are included in geothermal property costs.

Fourth Quarter

During the quarter ended December 31, 2007, the Company had net income of \$544,479 (\$0.00 per share) compared to net income of \$102,606 (\$0.00 per share) for the quarter ended December 31, 2006. During the fourth quarter of 2007, the Company recorded a recovery on future income tax of \$299,274 (2006-\$688,741), the difference between the Company's actual tax recovery of \$299,274 (2006-\$688,741) and the expected recovery calculated by applying statutory tax rates to the loss for year is due primarily to non-capital loss carry forwards for which no benefit has been recognized, stock-based compensation not deductible for tax purposes, and the change in future income tax rates from 31% to 27%.

During the fourth quarter of 2006, the Company granted 1,850,000 stock options to directors, officers, employees and consultants. The fair value of the options granted during the period amounted to \$190,352 and has been reflected in the statement of operations. There were no options granted during the fourth quarter of 2007.

Finance costs for the quarter ended December 31, 2006, amounted to \$32,665 (2007-Nil). Interest expense for the fourth quarter 2006 amounted to \$21,367 (2007-Nil). In 2006, the finance costs and interest were based on \$1.0M of the debt that was outstanding during 2006.

During the fourth quarter of 2007 the Company recorded a foreign exchange gain of \$289,796 compared to a foreign exchange loss of \$817 for the fourth quarter of 2006. During the last quarter of 2007 the Company converted USD 5.0M for current expenditures, which resulted in a foreign exchange gain at year end 2007. The Company earned interest income of \$228,656 during the fourth quarter of 2007, compared to \$4,897 during the fourth quarter of 2006. The increase in interest earned, most of which was in the fourth quarter of 2007, was a reflection of the cash balances during the periods.

Advertising, conference and promotion for the fourth quarter of 2007 amounted to \$24,011 compared to \$14,266 incurred in the fourth quarter of 2006. Travel related to conferences and promotions for the fourth quarter amounted to \$47,282 compared to \$9,204 incurred in the fourth quarter of 2006. The overall increase in these was due to increased attendance at conference and increased investor relations activities during 2007. General administration for the fourth quarter of 2007 amounted to \$40,271 compared to \$30,037 incurred in the fourth quarter of 2006. Consulting and advisory fees amounted to \$47,680 compared to \$25,575 incurred in the fourth quarter of 2006. The increase in 2007 is due to advisory fees paid to consultants on new project prospects; During the fourth quarter of 2007, management fees increased by \$30,000 to \$60,000 (2006-\$30,000) due to an increase in the management contract. Effective March 1, 2007, the monthly fees increased from \$15,000 to \$20,000 per month and also due to accrued vacation liability of \$30,000 for 2007 (2006-7,500). Of which 50% of the management fees are included in geothermal property costs.

Professional fees for the fourth quarter of 2007 amounted to \$15,837 compared to \$27,533 incurred in the fourth quarter of 2006. The increase in 2006 is due primarily to the fees incurred for the review of internal control and documentation of the Company. Regulatory fees for the fourth quarter of 2007 amounted to \$9,427 compared to \$43,730 for the fourth quarter of 2006. The decrease in 2007 is primarily due to de-registration of the Trust agent account in Norway

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 Policies including Initial Adoption

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").

CICA Section 1506 - Accounting changes: 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 audited consolidated financial statements.

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 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 December 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 December 31, 2007, the Company did not have any hedges.

Accounting Policies Not Yet Adopted:

(i) Going Concern (Section 1400)

Effective January 1, 2008 the Company will be implementing the amended CICA Handbook Section 1400, General Standards of Financial Statement Presentation, to include requirements for management to assess and disclose the entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

(ii) Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863)

These Standards replace CICA 3861, Financial Instruments – Disclosure and Presentation. They increase the disclosure currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to entity's key management personnel. This standard is effective for the Company for interim and annual periods beginning on or after January 1, 2008.

(iii) Capital Disclosures (Section 1535)

This standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual periods relating to fiscal years beginning on or after January 1, 2008.

The Company does not believe that the impact of the above new accounting standards on the Company's financial positions and results of operations will have a material effect.

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 value 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.

Outstanding Share Data

As at December 31, 2007, there were 186,187,293 common shares outstanding. A total of 51,244,205 share purchase warrants, 511,163 Agents options and 16,395,000 stock options were also outstanding, which are described in detail in notes 10(b), 10(d) and 10(f) to the audited financial statements.

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

On May 4, 2007, 567,568 agents' options expired without being exercised.

Subsequent to the year ended December 31, 2007:

-The Company issued 200,000 shares on the exercise of warrants.

-The Company granted 500,000 options at \$0.35 and 550,000 options at \$0.29, representing the market close on the date of grant to a consultant and a director of the company.

On April 5, 2008, 302,322 warrants expired without being exercised

On April 22, 2008, 690,000 warrants expired without being exercised.

On April 22, 2008, 511,163 of Agents' options expired without being exercised

As at April 23, 2008, the Company's outstanding share data was as follows:

Common shares outstanding: 186,387,293

Share purchase warrants:

19,520,549 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: 17,445,000

Oversight Role of the Audit Committee

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

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining adequate disclosure controls over internal controls over financial reporting as defined under Multilateral Instrument 52-109. Due to their

inherent limitations, disclosure controls and internal controls over financial reporting may not prevent or detect material disclosures or material adjustments or disclosures to the financial statements on a timely basis. Also projections of any evaluation of the effectiveness of controls to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, controls while expected to provide reasonable assurance, are not expected to prevent and detect all misstatements due to error or fraud. The Company's management under the supervision of, and with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has designed and evaluated the effectiveness and operation of its disclosure controls and procedures, as defined under Multilateral Instrument 52-19 of the Canadian Securities Administrators.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with Canadian Securities regulatory authorities is recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in such reports is then accumulated and communicated to the Company's management, including the CEO and the CFO, to allow timely decisions regarding required disclosure.

Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective as at December 31, 2007.

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.

The Company's CEO and CFO have assessed the design of the Company's internal control over financial reporting as of December 31, 2007. Based on this assessment, management has determined that the design of the Company's internal control over financial reporting is effective as of December 31, 2007.

There have been no significant changes to the Company's internal control over financial reporting that occurred during the most recent period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that disclosures and financial information is accurate and complete.

Additional Information

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