



## **CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008 and 2007**  
(Expressed in Canadian Dollars)



**December 31, 2008 and 2007**

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## Management's Responsibility for Financial Reporting

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The accompanying consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Company's management is responsible for the integrity of the financial information and for the implementation and maintenance of an appropriate system of internal controls. A system of internal accounting control is maintained in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities.

The Company's independent auditors, KPMG LLP, are appointed by the shareholders to conduct an audit in accordance with Canadian generally accepted auditing standards. The audit includes an examination on a test basis, of evidence supporting the amounts and disclosures in the financial statements as well as assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and implementation and maintenance of a system of internal controls. The Board exercises this responsibility through the Audit Committee. The Audit Committee meets with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend that the consolidated financial statements be presented to the Board of Directors for approval.

In addition, the Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.

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*"Kenneth MacLeod"*

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President, Chief Executive Officer, and Director

*"John Copeland"*

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Director

Vancouver, British Columbia  
April 14, 2009

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#1351 - 409 Granville Street  
Vancouver, BC V6C 1T2

Telephone: 604 662 3338  
Facsimile: 604 646 6603  
Toll Free: 1 866 662 3322

Website: [www.geopower.ca](http://www.geopower.ca)  
e-mail: [info@geopower.ca](mailto:info@geopower.ca)



**KPMG LLP**  
**Chartered Accountants**  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada

Telephone (604) 691-3000  
Fax (604) 691-3031  
Internet [www.kpmg.ca](http://www.kpmg.ca)

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## Auditor's Report to the Shareholders

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### To the Shareholders of Western GeoPower Corp.:

We have audited the Consolidated Balance Sheets of Western GeoPower Corp. (the "Company") as at December 31, 2008 and 2007 and the Consolidated Statements of Shareholders' Equity, Operations and Comprehensive Loss and Cash Flows for each of the years then ended. These consolidated 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**Chartered Accountants**

Vancouver, British Columbia  
April 14, 2009

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

# Western Geopower Corp.

## Consolidated Balance Sheets

Years Ended December 31

(Expressed in Canadian Dollars)

<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
<b>Current</b>		
Cash and cash equivalents	\$ 4,874,315	\$ 15,918,714
Receivables	79,463	93,184
Prepaid deposits and advances	97,091	201,794
	<u>5,050,869</u>	<u>16,213,692</u>
<b>Inventory</b>	<b>3,142,530</b>	<b>1,568,143</b>
<b>Equipment</b> (Note 4)	<b>1,841,675</b>	<b>150,788</b>
<b>Geothermal Property Costs</b> (Note 5 and Schedule)	<b>68,722,253</b>	<b>34,202,365</b>
<b>Reclamation Deposits</b> (Note 5)	<b>247,525</b>	<b>247,525</b>
<b>Long Term Deposits</b> (Note 5)	<b>7,453,937</b>	<b>1,328,475</b>
	<u>\$ 86,458,789</u>	<u>\$ 53,710,988</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 14,388,991	\$ 1,503,195
<b>Long Term Debt</b> (Note 6)	<b>11,009,774</b>	<b>833,078</b>
<b>Asset Retirement Obligations</b> (Note 7)	<b>634,553</b>	<b>569,528</b>
<b>Future Income Taxes</b> (Note 8)	<b>2,800,255</b>	<b>3,483,117</b>
	<u>28,833,573</u>	<u>6,388,918</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 9)		
<u>Authorized:</u>		
Unlimited number of common shares without par value		
<u>Issued and outstanding:</u>		
233,652,331 (2007 – 186,187,293) common shares	65,640,174	54,164,237
<b>Contributed Surplus</b> (Note 9)	<b>9,417,180</b>	<b>7,954,288</b>
<b>Accumulated Deficit</b>	<b>(17,432,138)</b>	<b>(14,796,455)</b>
	<u>57,625,216</u>	<u>47,322,070</u>
	<u>\$ 86,458,789</u>	<u>\$ 53,710,988</u>

**Nature of operations, basis for presentation and going concern** (Note 1)

**Commitments** (Notes 6, 7, 11, and 13)

**Subsequent events** (Notes 6b and 13)

Approved on behalf of the Board of Directors:

“Kenneth MacLeod”

President, Chief Executive Officer, and Director

“John Copeland”

Director

# Western Geopower Corp.

## Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31

(Expressed in Canadian Dollars)

	Common Shares		Contributed Surplus	Accumulated Deficit	Total
	Number	Amount			
Balance – December 31, 2006	105,645,209	\$ 34,471,513	\$ 6,486,552	\$ (13,076,889)	\$ 27,881,176
Issuance of common shares:					
- for cash, net of issue costs (Note 9a)	25,000,000	6,214,291	-	-	6,214,291
- for exercise of warrant incentive program, net of issue costs (Note 9d)	30,531,334	7,623,687	-	-	7,623,687
- on exercise of warrants (Note 9b)	19,950,334	4,987,584	-	-	4,987,584
- on exercise of options (Note 9b)	5,060,416	766,762	-	-	766,762
Fair value of options exercised (Note 9b)	-	100,400	(100,400)	-	-
Stock based compensation (Note 9c)	-	-	1,568,136	-	1,568,136
Net loss for the year	-	-	-	(1,719,566)	(1,719,566)
<b>Balance – December 31, 2007</b>	<b>186,187,293</b>	<b>54,164,237</b>	<b>7,954,288</b>	<b>(14,796,455)</b>	<b>47,322,070</b>
Issuance of common shares:					
- for cash, net of issue costs (Note 9a)	45,263,038	10,586,378	-	-	10,586,378
- on exercise of warrants (Note 9d)	1,530,000	445,500	-	-	445,500
- on exercise of options (Note 9b)	672,000	147,940	-	-	147,940
Fair value of options exercised (Note 9b)	-	106,480	(106,480)	-	-
Warrants issued on financing (Note 6c)	-	-	1,357,320	-	1,357,320
Stock based compensation (Note 9c)	-	-	564,955	-	564,955
Future income tax expense	-	189,639	(352,903)	-	(163,264)
Net loss for the year	-	-	-	(2,635,683)	(2,635,683)
<b>Balance – December 31, 2008</b>	<b>233,652,331</b>	<b>\$ 65,640,174</b>	<b>\$ 9,417,180</b>	<b>\$ (17,432,138)</b>	<b>\$ 57,625,216</b>

The accompanying notes form an integral part of these consolidated financial statements

# Western Geopower Corp.

## Consolidated Statements of Operations and Comprehensive Loss

Years Ended December 31

(Expressed in Canadian Dollars)

	2008	2007
<b>Expenses</b>		
Advertising and promotion	\$ 271,463	\$ 273,772
Accretion of asset retirement obligation	60,153	24,734
Amortization	13,439	9,258
Consulting and advisory fees	132,073	94,427
General and administrative	205,480	144,775
Foreign exchange loss (gain)	834,613	(289,796)
Directors' fees	70,000	88,500
Interest and bank charges	139,168	3,401
Management fees	125,000	375,000
Professional fees	98,139	57,201
Regulatory fees, transfer agents and investor relations	59,847	37,206
Rent	81,894	61,893
Salaries	365,917	352,689
Stock-based compensation (Note 9c)	172,383	1,502,314
Travel	83,261	124,460
Write-off of geothermal property costs (Note 5d)	928,745	-
Loss on disposal of equipment	15,593	1,777
	<b>(3,657,168)</b>	<b>(2,861,611)</b>
<b>Interest Income</b>	<b>170,141</b>	<b>301,133</b>
<b>Loss Before Income Taxes</b>	<b>(3,487,027)</b>	<b>(2,560,478)</b>
<b>Future Income Tax Recovery</b>	<b>851,344</b>	<b>840,912</b>
<b>Net Loss and Comprehensive Loss for the Year</b>	<b>\$ (2,635,683)</b>	<b>\$ (1,719,566)</b>
<b>Net Loss per Share - Basic and Diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted Average Shares Outstanding</b>	<b>198,577,053</b>	<b>136,406,725</b>

The accompanying notes form an integral part of these consolidated financial statements

# Western Geopower Corp.

## Consolidated Statements of Cash Flows

Years Ended December 31

(Expressed in Canadian Dollars)

<b>Cash Resources Provided By (Used in)</b>	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>		
Net loss for the year	\$ (2,635,683)	\$ (1,719,566)
Items not affecting cash:		
Accretion of asset retirement obligation	60,153	24,734
Amortization	13,439	9,258
Interest accretion on long-term debt	54,046	-
Write-off of geothermal property costs	928,745	-
Loss on disposal of equipment	15,593	1,777
Stock-based compensation	172,383	1,502,314
Future income tax recovery	(851,344)	(840,912)
Unrealized foreign exchange loss	76,321	-
Net changes in non-cash working capital:		
Receivables	13,721	(57,004)
Prepaid deposits and advances	104,703	(84,511)
Accounts payable and accrued liabilities	393,201	22,141
	<b>(1,654,722)</b>	<b>(1,141,769)</b>
<b>Investing Activities</b>		
Geothermal property costs, net of accounts payable	(26,406,649)	(887,785)
Purchases of equipment	(1,775,502)	(6,411)
Long term deposits, net of accounts payable	(2,882,350)	(1,298,175)
Changes in inventory	(1,574,387)	(1,568,143)
Proceeds on sale of property and equipment	-	500
Reclamation deposit	-	(97,525)
	<b>(32,638,888)</b>	<b>(3,857,539)</b>
<b>Financing Activities</b>		
Proceeds from debt issuances, net of issue costs	14,172,893	-
Proceeds from share issuances, net of issue costs	11,179,818	19,592,324
Repayment of short term debt issuance	(2,103,500)	-
	<b>23,249,211</b>	<b>19,592,324</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(11,044,399)</b>	<b>14,593,016</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>15,918,714</b>	<b>1,325,698</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 4,874,315</b>	<b>\$ 15,918,714</b>
<b>Supplemental Cash Flow Disclosure</b>		
Interest paid	\$ 81,248	\$ -
Income taxes paid	\$ -	\$ -
<b>Supplemental Disclosure of Non-Cash Financing and Investing Activities</b>		
Future income taxes on stock-based compensation and capital asset amortization capitalized to geothermal properties	\$ 8,585	\$ 36,179
Amortization of equipment capitalized to geothermal properties	\$ 55,583	\$ 31,995
Stock based compensation included in geothermal property costs	\$ 392,572	\$ 65,822
Units issued as consideration for financing fees (Note 9a)	\$ 632,520	\$ -
Asset retirement obligation charged to geothermal property costs	\$ 4,872	\$ -
Costs of long term assets included in accounts payable	\$ 11,823,484	\$ 1,299,034

The accompanying notes form an integral part of these consolidated financial statements

# Western Geopower Corp.

## Consolidated Schedules of Geothermal Property Costs

Years Ended December 31

(Expressed in Canadian Dollars)

	2008	2007
<b>The Geysers, California, U.S.A. (Note 5a)</b>		
Balance - Beginning of Year	\$ 2,367,641	\$ 546,412
Amortization of equipment	31,150	-
Asset retirement obligation	4,872	-
Civil engineering	715,239	163,100
Drilling and testing	28,698,780	-
Environmental and legal review for power sales bids	46,057	56,164
Environmental – permitting and project development	307,573	274,989
Insurance	114,372	78,909
Interconnection – transmission studies	100,000	91,360
Leases	137,542	136,620
Legal fees and title and land search	339,578	54,077
Project administration and travel	646,712	158,590
Project development	263,459	285,890
Project finance and interest charges	72,580	62,153
Project management	967,548	452,820
Resource assessment and feasibility reports	6,906	6,557
Stock-based compensation	392,572	-
Total during the year	32,844,940	1,821,229
Balance - End of Year	35,212,581	2,367,641
<b>South Meager, British Columbia, Canada (Note 5b)</b>		
Balance - Beginning of Year	31,732,107	31,483,600
Amortization of equipment	24,433	-
Asset retirement obligation	-	(42,353)
Camp office and administration	37,887	62,652
Community stakeholder relations	86,630	45,033
Drilling and testing	984,764	35,954
Environmental review	-	2,550
Future income taxes	8,585	36,179
Lease permits and occupancy	42,670	42,670
Stock-based compensation	-	65,822
Total during the year	1,184,969	248,507
Balance - End of Year	32,917,076	31,732,107
<b>South Brawley, California (Note 5c)</b>		
Balance - Beginning of Year	102,617	-
Leases	483,979	5,964
Professional fees; title and land searches	-	96,653
Total during the year	483,979	102,617
Balance - End of Year	586,596	102,617
<b>Other International Projects (Note 5d)</b>		
Balance - Beginning of Year	-	-
Legal fees and title and land search	71,157	-
Project due diligence	863,588	-
Total during the year	934,745	-
Write-off of geothermal property costs	(928,745)	-
Balance - End of Year	6,000	-
<b>Total Geothermal Property Costs – December 31, 2008 and 2007</b>	<b>\$ 68,722,253</b>	<b>\$ 34,202,365</b>

The accompanying notes form an integral part of these consolidated financial statements

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 1. Nature of Operations, Basis of Presentation, and Going Concern

Western GeoPower Corp. (the "Company") is incorporated under the laws of British Columbia, Canada, and maintains its corporate head office in Vancouver, Canada. The Company's common shares are listed in Canada on the TSX Venture Exchange (TSX.V: WPG) and in Germany on the Frankfurt Exchange (WE6.F).

The Company is in the process of developing its Geothermal Projects held for the generation of commercial production of electricity and has not yet determined the full economic viability of all 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 (Note 5). As discussed in the notes to the financial statements, the recovery of the Company's investment in geothermal properties and the attainment of profitable operations is dependent upon the existence of one or more economic projects and the Company's ability to obtain the necessary financing to complete development and to secure and maintain the appropriate permits, rights and beneficial interest in the properties. The ultimate outcome of these matters cannot presently be determined.

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("GAAP"). Several conditions discussed below cast substantial doubt as to the assumption.

The Company has a history of losses with no operating revenue, other than interest income and has a working capital deficiency of \$9,338,122 (2007 working capital of \$14,710,497). The ability of the Company to carry out its planned business objectives is dependent on the ability to raise adequate financing from lenders, shareholders, and other investors (Notes 6, 9, and 13) and/or generate operating profitability and positive cash flow. There can be no assurances that the Company will continue to obtain additional financial resources necessary 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, exploration and development activities and there would be significant uncertainty whether the Company would continue as a going concern, and realize its assets and settle its liabilities and commitments in the normal course of business.

The Company has forecast financial results and cash flows for 2009. The forecast is based on management's best estimates of operating conditions in the context of current economic conditions and today's difficult capital market climate. Based on its forecast, the Company expects that sufficient liquidity is available to meet its obligations in 2009.

These consolidated financial statements do not reflect adjustments, which could be material, to the carrying values of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

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# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 2. Significant Accounting Policies

The significant accounting policies followed in the preparation of these consolidated financial statements are as follows:

a) *Principles of Consolidation*

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Meager Creek Development Corporation (incorporated on January 2, 1991), Western GeoPower, Inc. (incorporated on September 7, 2006), and Western GeoPower SpA (incorporated on March 28, 2008). All intercompany balances and transactions have been eliminated upon 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) *Inventory*

Inventory consists of piping, consumable parts, and other supplies to be consumed during the course of exploration, development, and operations. Cost represents the delivered price of the item.

d) *Equipment*

Equipment is carried at cost less accumulated amortization. The Company provides for amortization on the following basis:

- Furniture and fixtures	20% declining balance basis
- Computer equipment	45% declining balance basis
- Camp and field equipment	10% – 20% declining balance basis
- Vehicles	30% declining balance basis
- Leasehold improvements	3 years straight-line basis

e) *Geothermal Property Costs*

All expenditures related to the acquisition and exploration of geothermal properties are capitalized on an individual prospect basis until such time as commercial production is established or the project is determined by management to be impaired, abandoned or sold. Amounts received for the sale of properties, for option payments and for exploration advances are treated as reductions of the cost of the property, payments in excess of capitalized costs are recognized in income. Costs for a producing project will be amortized on a systematic basis, while costs for the prospects abandoned are written off. The Company reviews the carrying value of the property on a regular basis for impairment.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 2. Significant Accounting Policies – *continued*

#### e) *Geothermal Property Costs – continued*

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.

The recoverability of the amounts capitalized for the geothermal properties being explored and developed is dependent upon the determination of economical electrical generation capabilities, confirmation of the Company's interest in the underlying claims, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

#### f) *Asset Retirement Obligations*

Future costs to retire an asset, including remediation and on-going treatment and monitoring of the site, are recognized and recorded as a liability initially 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, once put into use. Future asset retirement obligations are not recorded where timing or amount of the remediation costs cannot be reasonably estimated. The asset retirement obligation is classified based on expected timing of settlement.

#### g) *Income Taxes*

Income taxes are accounted for using the asset and liability method. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on future taxes of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, the method requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 2. Significant Accounting Policies - *continued*

#### *h) Loss per Share*

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated in accordance with the treasury stock method which assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the prevailing market rate. Stock options and warrants are dilutive when the Company has income from continuing operations and when the average market price of the common shares during the period exceeds the exercise price of the options and warrants. For the year ended December 31, 2008, potentially dilutive common shares (relating to options and warrants outstanding) totalling 93,242,667 (2007 – 68,150,368) were not included in the computation of diluted loss per share because their effect was anti-dilutive.

#### *i) Share Capital*

The Company records proceeds from the exercise of stock options and warrants as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. 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.

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.

#### *j) Stock-Based Compensation*

The Company has a stock option plan that is described in Note 9. The Company records all stock-based payments using the fair value method. Under this 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

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 2. Significant Accounting Policies - *continued*

#### k) *Foreign Currency Translation*

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:

- Monetary assets and liabilities at the rate of exchange prevailing at the balance sheet date; and
- 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 or comprehensive loss.

#### l) *Financial Instruments – recognition and measurement*

Under Section 3855, *Financial Instruments – Recognition and Measurement*, financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as held-for-trading, available-for-sale financial assets, held to maturity, loans and receivables, or other financial liabilities as follows:

- Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period.
- Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet or until the instrument is derecognized or impaired at which time the amounts are recorded in earnings.
- Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.
- Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period unless the instrument is a cash flow hedge and hedge accounting applies in which case changes in fair value are recognized in other comprehensive income.

Upon adoption of this standard, on January 1, 2007, the Company designated its financial instruments as follows:

- Cash and cash equivalents are classified as held-for-trading;
- Receivables are classified as loans and receivables;
- Reclamation deposits invested in government backed securities are classified as available-for-sale; and
- Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities.

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

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 2. Significant Accounting Policies – *continued*

#### *m) Financial Instruments – recognition and measurement – continued*

##### Fair value

Fair values of assets and liabilities approximate amounts at which these items could be exchanged in transactions between knowledgeable parties. Fair value is based on available public market information or when such information is not available, estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate credit risk. The calculation of estimated fair value is based on market conditions at the specific point in time and in the respective geographic locations and may not be reflective of future fair values.

As at December 31, 2008 and 2007, the carrying value of cash and cash equivalents, receivables, and accounts payable and accrued liabilities approximate their fair values due to their short term to maturity. The fair value of the Company's reclamation deposit approximates its carrying value as the amount is held in low risk government bonds and guaranteed investment certificates. The carrying value of the Company's long term debt approximates its fair value as it has been discounted at an interest rate approximating current market rates, as the significant portion of the debt was arranged near the Company's year end of December 31, 2008.

#### *n) Estimates and Measurement Uncertainty*

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. Significant areas where management judgment is applied in these financial statements include: recoverability of geothermal property costs, assumptions used to estimate fair value of stock-based compensation or warrant valuation, calculations of asset retirement obligations, useful lives for depletion and amortization, and valuation allowances and calculations of future income tax provisions.

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# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 3. Adoption of New and Future Canadian Accounting Pronouncements

#### a) *Adoption of New Canadian Accounting Pronouncements*

During the year ended December 31, 2008, the Company adopted the following new Canadian accounting pronouncements:

##### i) Going Concern

In April 2007, the CICA approved amendments to Handbook Section 1400, *General Standards of Financial Statement Presentation*. These amendments require management to assess an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The standard was adopted by the Company effective January 1, 2008, and appropriate disclosure is provided in Note 1.

##### ii) Inventories

In June 2007, the CICA issued Section 3031, *Inventories*, which replaces Section 3030, *Inventories*, in an effort to harmonize accounting for inventories under Canadian GAAP with IFRS. This standard requires that inventories be measured at the lower of cost and net realizable value, and includes guidance on the determination of cost, including allocation of overheads and other costs. The standard also requires that similar inventories within a consolidated group be measured using the same method. Supplies inventory is valued at average cost and requires reversal of previous write-downs to net realizable value upon subsequent increase in the value of inventories. The Company adopted the standard effective January 1, 2008, and management has determined the initial adoption of this standard did not have a material impact on the consolidated financial statements for any of the periods presented.

##### iii) Capital Disclosures

Effective January 1, 2008, the Company adopted the CICA Handbook Section 1535, *Capital Disclosures*. The new standard requires a company to disclose information that enables users of its financial statements to evaluate its objectives, policies and procedures for managing capital including disclosures of any externally imposed capital requirements and the consequences for non-compliance.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 3. Adoption of New and Future Canadian Accounting Pronouncements – *continued*

#### a) *Adoption of New Canadian Accounting Pronouncements – continued*

##### iii) Capital Disclosures – *continued*

The Company's objectives when managing capital are:

- To maintain and safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds, to support continued evaluation and maintenance at the Company's existing properties, and to acquire, explore, and develop other geothermal properties internationally.
- To invest cash on hand in highly liquid and highly rated financial instruments with high credit quality issuers, thereby minimizing the risk and loss of principal.
- To obtain the necessary financing to complete exploration and development of its properties, if and when it is required.

In the management of capital, the Company includes working capital, long-term debt and shareholders' equity in the definition of capital. The Company is not exposed to externally imposed capital requirements.

The Company manages the capital structure and makes adjustments to it, based on the level of funds required to manage its operations in light of changes in economic conditions and the risk characteristics of its underlying assets.

In order to facilitate the management of capital and development of its geothermal properties, the Company prepares annual expenditure budgets, which are updated as necessary and are reviewed and approved by the Company's Board of Directors. In addition, the Company may issue new equity, incur additional debt, option its properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of certain assets. The Company's investment policy is to hold cash in interest bearing accounts at high credit quality financial institutions to maximize liquidity. In order to maximize ongoing development efforts, the Company does not pay dividends. Notwithstanding the risks described in Note 1 of the financial statements, the Company expects to continue to raise funds, from time to time, to continue meeting its capital management objectives.

##### iv) Financial Instruments – presentation and disclosure

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. The objective of these new standards is to provide more information for users of the Company's financial statements to understand the significance of financial instruments to the Company's financial position, performance, and cash flows. These new standards have superseded CICA Handbook Section 3861 and are described below.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 3. Adoption of New and Future Canadian Accounting Pronouncements – *continued*

#### a) *Adoption of New Canadian Accounting Pronouncements – continued*

#### iv) Financial Instruments – presentation and disclosure – *continued*

##### Credit risk

Credit risk arises from the possibility that customers may experience financial difficulty and be unable to fulfill their commitments to the Company. The Company's credit risk is primarily attributable to its liquid financial assets of cash, receivables, and reclamation deposits. The carrying value of these instruments represents the Company's maximum exposure to credit risk. The Company manages and limits exposure to credit risk by maintaining its cash with high-credit quality financial institutions. The credit risk in receivables is considered low by management as they consist primarily of amounts owing from government authorities in relation to the refund of value-added taxes applying to inputs for qualified expenditures. Similarly, management considers the credit risk associated with reclamation deposits to be low as these deposits are held in government backed securities. The Company does not have financial assets that are invested in asset backed commercial paper.

##### Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The Company manages liquidity risk through the management of its capital structure, as outlined in Note 3(a)(iv) of these consolidated financial statements. Refer to Notes 6, 7, and 11, where contractual maturities of the Company's financial liabilities are disclosed.

##### Commodity price risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. The Company's risk relates primarily to the expected output to be produced at Geysers Unit 1 project, of which production is not expected until the year 2010. The risk is mitigated in that the Company has entered into a Power Purchase Agreement for the sale of power from the project at a fixed price of USD \$98 per MWh for 20 years, subject to certain adjustments, thereby mitigating the risk of commodity price fluctuations.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 3. Adoption of New and Future Canadian Accounting Pronouncements – *continued*

#### b) *Adoption of New Canadian Accounting Pronouncements – continued*

##### v) Financial Instruments – presentation and disclosure – *continued*

###### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

The Company's interest bearing financial assets are comprised of cash and cash equivalents, which bear interest at a variable rate. The Company's interest bearing financial liabilities is comprised of long term debt and consists of a mixture of variable and fixed rate loans for a pre-set period of time. The Company has only one long term debt (Note 6a) which bears interest at a variable rate and is equal to the Royal Bank prime rate, which as at December 31, 2008 was 3.50%. All other long term debt and financial liabilities are not subject to interest rate risk as they are non-interest bearing or bear interest at fixed rates. As a result of the relatively low interest rates charged on the variable interest loan, management has determined the overall interest rate risk is low, and the estimated effect of a 100 basis points change in interest rates would not have a material effect on the Company's results of operations. Further, the Company has also determined that a 100 basis point change in the interest rates would not have a material impact on the fair value of the loans when compared to the loans' carrying value.

###### Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in the foreign exchange rates. The Company's functional and reporting currency is the Canadian dollar. The Company incurs foreign currency risk on purchases that are denominated in a currency other than the functional currency of the Company, which will have an impact on the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company's main risks are associated with fluctuations in the US dollar ("USD") and assets and liabilities are translated based on foreign currency translated policy described in Note 2(I). The Company does not enter into any foreign exchange contracts. In order to mitigate this risk, the Company maintains a portion of its cash and cash equivalents in US dollar denominated bank accounts. As at December 31, 2008, the Company had cash on hand totalling approximately USD \$3,819,000 which is included in its cash and cash equivalents balance. The Company has determined that an effect of a 10% increase or decrease in the US dollar against the Canadian dollar on financial assets and liabilities, as at December 31, 2008, including cash and cash equivalents, accounts payable and accrued liabilities and long-term debt are denominated in U.S. dollars, would result in an increase or decrease in net loss or other comprehensive loss for the year ended December 31, 2008 of \$1,867,465.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 3. Adoption of New and Future Canadian Accounting Pronouncements – *continued*

#### c) *Future Canadian Accounting Pronouncements*

Recent Canadian accounting pronouncements that have been issued but are not yet effective, and which may affect the Company's financial reporting in the future are summarized below:

##### (i) Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The new Section will be applicable to the Company's consolidated financial statements for its fiscal year beginning January 1, 2009. The Company will be evaluating the impact that the adoption of this section may have on its consolidated financial statements.

##### (ii) Business Combinations

In January 2009, the CICA issued Section 1582, *Business Combinations*, which replaces former guidance on business combinations. Section 1852 establishes principles and requirements of the acquisition method for business combinations and related disclosures. In addition, the CICA issued Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests*, which replaces the existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements, which section 1601 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

These statements apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Company is currently evaluating the new sections to determine the potential impact on its consolidated financial statements.

##### (iii) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC – 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The Company does not expect that the adoption of this section will have a material impact on its consolidated financial statements.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

### 3. Adoption of New and Future Canadian Accounting Pronouncements – *continued*

#### c) *Future Canadian Accounting Pronouncements – continued*

##### (iv) International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA Accounting Standards Board confirmed that accounting standards in Canada for public companies are required to converge with IFRS beginning on or after January 1, 2011, with restatement of the Company’s December 31, 2010 comparative figures. Changes in accounting policies are likely and may materially impact the Company’s consolidated financial statements.

### 4. Equipment

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Construction-in-progress	\$ 1,454,079	\$ -	\$ 1,454,079	\$ -	\$ -	\$ -
Furniture and fixtures	48,261	(20,881)	27,380	30,042	(17,281)	12,761
Computer equipment	67,298	(23,756)	43,542	48,095	(38,514)	9,581
Camp and field equipment	400,237	(112,214)	288,023	201,715	(86,564)	115,151
Leasehold improvements	19,504	(1,625)	17,879	-	-	-
Vehicles	39,494	(28,722)	10,772	40,254	(26,959)	13,295
	<b>\$ 2,028,873</b>	<b>\$ (187,198)</b>	<b>\$ 1,841,675</b>	<b>\$ 320,106</b>	<b>\$ (169,318)</b>	<b>\$ 150,788</b>

Construction-in-progress represents costs associated with the construction of the WGP Unit 1 power plant being constructed at the Geysers, California, U.S.A. The Company expects to amortize the total cost of construction of the plant over a straight-line basis over 20 years, beginning once the plant operates commercially. The amortization period of 20 years coincides with the Company’s power purchase agreement on the same project discussed in Note 5a).

### 5. Geothermal Property Costs

#### a) *The Geysers, California, United States of America*

The Company owns a 100% interest in certain lease agreements covering approximately 1,045 acres of land at The Geysers geothermal field located 75 miles north of San Francisco, California. The property was obtained by the Company through various lease agreements during 2006 and 2007. The primary leases were entered into for three-year periods, however, the leases contain continuing clauses in the event that resource substances are produced in commercial quantities from the leased land and are utilized to produce gross revenue. The leases are subject to certain royalties whereby, the Company is required to pay the landlord a percentage of gross revenue from the sale of electricity. Annual lease commitments are disclosed in Note 11(b).

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 5. Geothermal Property Costs - *continued*

#### a) *The Geysers, California, United States of America*

The Company has entered into a contract to purchase a steam turbine generator for the proposed project from Fuji Electric Company of America in the amount of USD\$13.4 million, for delivery to the project site in October 2009. The contract requires progress payments throughout the various stages of completion. As at December 31, 2008, the Company had recorded total progress deposits of \$7,453,937 (2007 - \$1,298,175) against the purchase of the generator and other equipment related to the project. Of this amount, \$4,210,825 has been paid at year end and the remaining \$3,243,112 was included in accounts payable at December 31, 2008 (paid subsequent to year end). The Company expects to make the remaining final instalments on the purchase of the generator during the year ended 2009.

During 2008, the Company also agreed to terms on a Power Purchase Agreement with Northern California Power Agency of Roseville, California, for the supply of approximately 265,000 Megawatt-hours ("MWh") per year of baseload electricity at a price of USD \$98 per MWh for 20 years, from the Company's proposed 35 MWe geothermal power plant. This contract will be accounted for as a lease upon commercial operation.

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. The legislation requires operators to file a bond to cover such liabilities, for which the Company has made a deposit in the amount of \$97,525.

#### b) *South Meager Geothermal Project, British Columbia, Canada*

Under terms of two occupation leases and one geothermal lease, all of which were granted by the British Columbia Ministry of Energy and Mines (expiring at various times in 2017), the Company holds a 100% interest in lease agreements covering approximately 4,267 hectares of land located 170 kilometers north of Vancouver.

Under current legislation and terms of agreements, the land 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). In addition, an undefined royalty is payable to the Crown if electricity is produced from the geothermal lease and sold (this underlying royalty is subject to negotiation).

The Company is contingently liable for site restoration of this geothermal property under the regulations of the Petroleum and Natural Gas Act of the Province of British Columbia. Under this legislation, the required deposit has been supported by a term deposit provided by the Company, in the amount of \$150,000.

#### c) *South Brawley, California, United States of America*

During the year ended December 31, 2008 and 2007, the Company has entered into certain leases in South Brawley, located in Southern California, for the purposes of exploration for a potential geothermal project. The leases are subject to certain royalties associated with electricity produced and sold on the leased properties.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

### 5. Geothermal Property Costs - *continued*

#### d) *Other International Projects*

During the year ended December 31, 2008, the Company reviewed various project opportunities in Chile and the Philippines, including submitting bids for the acquisition of three geothermal exploration concessions in northern Chile to the Chilean Ministry of Mines. Results from the process and project review have not been favourable and the Company determined a write-off totalling \$928,745 related to the projects was appropriate.

### 6. Long Term Debt

The Company has entered into a number of debt instruments. The following table provides an analysis of the transactions for each of the last two years ending December 31, 2008. Each note is also described in detail as specified in the table below.

	Note 6a)	Note 6b)	Note 6c)	Note 6d)	Total
Long term debt – December 31, 2007 and 2006	\$ 833,078	\$ -	\$ -	\$ -	\$ 833,078
Issued debt	-	400,000	13,314,880	2,103,500	15,818,380
Finance and transaction fees incurred	-	-	(2,999,182)	-	(2,999,182)
Interest payments	-	-	(708,563)	-	(708,563)
Interest and accretion expense	39,194	-	54,046	-	93,240
Repayment of debt	-	-	-	(2,103,500)	(2,103,500)
Effect of foreign exchange on loans	-	-	76,321	-	76,321
Long term debt – December 31, 2008	\$ 872,272	\$ 400,000	\$ 9,737,502	\$ -	\$ 11,009,774

The maturities of the principal component of the long term debts are as follows:

2010	\$ 13,798,000
2011	872,272
	14,670,272
Less: future accretion	(3,660,498)
	\$ 11,009,774

a) Pursuant to an agreement with a former shareholder in 2003, the Company agreed to a loan arrangement in the amount of \$833,078. It was agreed that interest is calculated at the Royal Bank of Canada's prime rate and it would only start to accrue 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

As a result, the Company has accrued interest expense in the amount of \$39,194 since December 31, 2007 (which is included as long term debt). The loan and interest is payable in full on or before December 31, 2011. At the option of the Company, earlier payment is permitted.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 6. Long Term Debt - *continued*

- b) In August 2008, the Company entered into three loan agreements with a Director and Officer, which accrue interest at an annual rate of 12% per annum compounded monthly. Interest is paid on a monthly basis. During the year ended December 31, 2008, the Company paid interest of \$17,976 in connection with this loan. The loan is secured by a general security agreement over the assets of the parent company.

Subsequent to December 31, 2008, the Company agreed to extend the loans to become due and payable on or before December 26, 2010. In connection with these extensions, the Company issued the Director and Officer a total of 592,593 common shares with a fair value of approximately \$106,700.

- c) In November 2008, the Company entered into a USD \$11,000,000 secured loan facility for drilling, project management, development cost, plant equipment, and working capital purposes. The loan was fully drawn as at December 31, 2008 and is secured by all of the Company's property and assets owned presently or in the future and ranks equally with the three loans described in Note 6b).

The outstanding principal, together with all accrued interest, fees and other indemnities owing is payable on or before December 26, 2010. Interest is calculated monthly on the principal amount outstanding as follows:

- 1% per month for the first six months after the date of execution of the agreement;
- 1.25% per month for the second six months after the date of execution of the agreement; and
- 1.5% per month thereafter.

The lender has the option to have interest on each Advance under the loan facility (plus accrued interest thereon) payable in common shares of the Company at a Discounted Market Price (as defined in Policy 1.1 of the TSX Venture Exchange). During the year ended December 31, 2008, the Company paid and accrued interest and related fees totalling \$708,563 and incurred accretion expense of \$54,046, which is included in interest and bank charges.

In connection with this financing, the Company incurred financing and transaction fees of \$1,641,862. In addition, the Company must pay a rollover fee equal to 5% of the total principal advanced (estimated to be a total of USD \$2.2 million, of which USD \$550,000 has been paid subsequent to the year ended December 31, 2008) every six-month interval until the maturity date or principal repayment.

The Company also issued the lender 29,629,629 warrants to purchase the same number of common shares in the Company, exercisable at \$0.18 per share and expiring November 7, 2010. The fair value of the warrants, being \$1,357,320, was estimated using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 1.87%; expected dividend yield of 0%; volatility factor of 64.48% and an expected life of 2 years. The fair value of the warrants are included in financing costs and allocated against the long term debt.

- d) In August 2008, the Company agreed to terms on a short term loan agreement in the amount of USD \$2,000,000 at a rate of 12% per annum. The loan was repaid in the same month. In connection with this loan, the Company paid interest totalling USD \$19,068.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

### 7. Asset Retirement Obligations

A reconciliation for the provision of asset retirement obligations by property is as follows:

	The Geysers Project (Note 5a)	South Meager Project (Note 5b)	Total
Opening balance, December 31, 2006	\$ -	\$ 587,146	\$ 587,146
Change in estimate of provision	-	(66,658)	(66,658)
Accretion		49,040	49,040
<b>Ending balance, December 31, 2007</b>	<b>-</b>	<b>569,528</b>	<b>569,528</b>
<b>Additional obligation incurred</b>	<b>4,872</b>	<b>-</b>	<b>4,872</b>
<b>Accretion</b>	<b>-</b>	<b>60,153</b>	<b>60,153</b>
<b>Ending balance, December 31, 2008</b>	<b>\$ 4,872</b>	<b>\$ 629,681</b>	<b>\$ 634,553</b>

The Company's provision for asset retirement obligations 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 \$5,409,000 to be expended commencing in 2031 at a discount rate of 33% and an inflation factor of 2.0% for the Geysers Project and an undiscounted cost of \$1,445,500 to be expended commencing in 2017 at a discount rate of 10% to 12% and an inflation factor of 2.0% for the South Meager Project.

The Company will begin accreting the asset retirement obligation for The Geysers Project in 2009.

### 8. Future Income Taxes

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2008	2007
Loss before income taxes	\$ (3,487,028)	\$ (2,584,784)
Effective statutory rate	31.00%	34.12%
Expected income tax recovery	\$ (1,080,979)	\$ (881,928)
Permanent differences	321,585	466,439
Difference in foreign tax rates	298	-
Change in valuation allowance	4,927	(215,375)
Change in enacted tax rates	(97,177)	(210,048)
Net income tax recovery	\$ (851,344)	\$ (840,911)

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

### 8. Future Income Taxes - *continued*

Future income tax assets reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future income tax assets at December 31, 2008 and 2007 are as follows:

	2008	2007
<b>Future income tax assets</b>		
Non-capital loss carry forwards	\$ 3,478,284	\$ 2,441,000
Geothermal property costs	163,717	95,000
Share issuance costs and other	257,460	278,000
Equipment	6,895	-
Total future tax assets	3,906,356	2,814,000
Less: valuation allowance	(1,618,252)	(1,613,325)
<b>Net future tax assets</b>	<b>2,288,104</b>	1,200,675
<b>Future income tax liabilities</b>		
Geothermal property costs	4,490,972	4,683,792
Long term debt	597,387	-
<b>Net future tax liabilities</b>	<b>\$ 2,800,255</b>	<b>\$ 3,483,117</b>

As at December 31, 2008, the Company has non-capital losses for Canadian tax purposes of approximately \$13,378,000 available to offset against taxable income in future years, which if unutilized, will begin to expire in 2009. Future tax benefits which may arise as a result of these losses, resource deductions and other tax assets have not been fully recognized in these financial statements as they have been offset by a valuation allowance.

### 9. Share Capital

#### a) *Private placements*

During the year ended December 31, 2008, the Company issued 42,732,960 units at a price of \$0.25 per unit for total gross proceeds of \$10,683,240. Each unit consisted of one common share and one transferable share purchase warrant exercisable into one common share for a period of 24 months from closing at a price of \$0.45 per share during the first 12 months and \$0.50 per share during the last 12 months. In connection with this private placement, the Company issued an additional 2,530,078 units with a value of \$632,520 as a finder's fee and incurred \$96,862 in transaction fees associated with the financing.

The warrants issued 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 during the first year or \$0.55 or more for ten consecutive trading days during the second year, it will trigger a 30 day timeframe within which to exercise the warrants or they will expire.

On September 5, 2007, the Company closed a \$6,250,000 non-brokered private placement for net proceeds of \$6,214,291, through the issuance of 25,000,000 common shares for \$0.25 per share.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

### 9. Share Capital - *continued*

#### b) *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.

A summary of the status of the Company's stock options as at December 31, 2008 and 2007 and changes during those years are presented below:

	2008		2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	16,906,163	\$ 0.52	14,609,147	\$ 0.33
Granted	3,300,000	0.27	8,275,000	0.27
Exercised	(672,000)	0.22	(5,060,416)	0.15
Forfeited	(1,184,163)	0.59	(917,568)	1.26
Outstanding, end of year	18,350,000	\$ 0.26	16,906,163	\$ 0.30
Exercisable, end of year	18,350,000	\$ 0.26	16,906,163	\$ 0.30

During the year ended December 31, 2008, the Company granted a total of 3,300,000 stock options, of which 500,000 are exercisable at a price of \$0.35 per share; 550,000 are exercisable at a price of \$0.29 per share; 900,000 are exercisable at \$0.315 per share; and 1,350,000 are exercisable at a price of \$0.195 per share. The options granted in 2008 expire at various times between February 11, 2013 and October 16, 2013.

During the year ended December 31, 2007, the Company granted a total of 8,275,000 stock options, of which 300,000 are exercisable at a price of \$0.32 per share; 300,000 are exercisable at a price of \$0.30 per share; and 7,675,000 are exercisable at a price of \$0.27 per share. The options granted in 2007 expire at various times between May 30, 2012 and September 20, 2012.

During the year ended December 31, 2008, holders exercised 672,000 (2007 – 5,060,416) stock options for gross proceeds of \$147,940 (2007 - \$766,762). In connection with these exercises, the Company reclassified the fair value of these options previously recorded in the amount of \$106,480 (2007 – \$100,400) from contributed surplus to share capital. Also during the year ended December 31, 2008, 1,184,163 (2007 – 917,568) options were forfeited and cancelled as individuals left the Company or the options expired.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

### 9. Share Capital - *continued*

#### b) *Stock options - continued*

The weighted-average fair value of options granted during the year ended December 31, 2008 was \$0.17 (2007 - \$0.19).

As at December 31, 2008, stock options exercisable and outstanding are as follows:

Options Outstanding and Exercisable		
Exercise Price	Number	Weighted Average Remaining Contractual Life (yrs.)
\$0.155	910,000	2.97
\$0.170	100,000	2.64
\$0.195	1,350,000	4.79
\$0.220	4,390,000	2.13
\$0.270	7,100,000	3.72
\$0.280	300,000	2.25
\$0.290	550,000	4.26
\$0.300	300,000	3.70
\$0.315	900,000	4.59
\$0.320	300,000	3.41
\$0.350	2,150,000	2.17
	<b>18,350,000</b>	<b>3.25</b>

#### c) *Stock-based compensation*

The total compensation expense recognized for options granted during 2008 was \$564,955 (2007 - \$1,568,136). Of the total compensation recorded during the year, \$172,383 (2007 - \$1,502,314) was charged to operations expense and \$392,572 (2007 - \$65,822) was capitalized to geothermal property costs.

The fair value of the options used in the information above has been estimated at the date of grant of options using the Black-Scholes option pricing model with the following assumptions:

	2008	2007
Weighted average risk-free interest rate	<b>3.12%</b>	4.31%
Weighted average expected option life	<b>5 years</b>	5 years
Weighted average expected stock volatility	<b>77.13%</b>	79.63%
Weighted average expected dividend yield	<b>Nil</b>	Nil

Option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

### 9. Share Capital - *continued*

#### d) Warrants

A summary of the status of the Company's outstanding (and exercisable) warrants as at December 31, 2008 and 2007 and changes during those years are presented below:

	2008		2007	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	51,244,205	\$ 0.33	70,204,448	\$ 0.37
Issued during the year	74,892,667	0.34	34,701,750	0.34
Exercised in the year	(1,530,000)	0.29	(50,481,668)	0.25
Expired/Cancelled in the year	(49,714,205)	0.33	(3,180,325)	2.50
Outstanding, ending of year	74,892,667	\$ 0.34	51,244,205	\$ 0.33

During the year ended December 31, 2008, the Company issued 45,263,038 warrants in connection with the private placement described in Note 8a) and also issued 29,629,629 warrants in connection with the debt financing described in Note 6c).

During the year ended December 31, 2008, holders exercised 1,530,000 (2007 – 19,950,334) warrants for gross proceeds of \$445,500 (2007 - \$4,987,584). Also during the year ended December 31, 2008, 49,714,205 (2007 – 3,180,325) warrants expired without being exercised.

In addition to the above, during the year ended December 31, 2007, the Company announced a warrant incentive program. In order to encourage the early exercise of certain warrants, the Company offered holders who exercised that warrant one unit instead of one common share in exchange for the original exercise price. Each unit consisted of one common share and one transferable warrant, whereby each warrant allowed the holder to acquire one common share at a price of \$0.35 per share until December 31, 2008. The warrants issued under the incentive program are subject to an acceleration provision, which provided that if the Company's shares trade for \$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. In connection with this program 30,531,334 such units were issued for net proceeds of \$7,623,687 and the additional warrants that were not exercised by December 31, 2008 expired.

In addition, in 2007, the Company also issued 4,170,416 units on the exercise of the same number of agent's options previously issued. Under terms of the agreement, the units issued included one common share and one purchase warrant, entitling the holder to purchase a common share of the Company at \$0.25 per share until December 30, 2008.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 9. Share Capital - *continued*

#### e) *Warrants - continued*

As at December 31, 2008, warrants are outstanding and exercisable are as follows:

<u>Warrants Outstanding and Exercisable</u>		
		Weighted Average Remaining Contractual Life (yrs.)
Exercise Price	Number	
\$0.18	29,629,629	1.90
\$0.45	45,263,038	1.76
	<u>74,892,667</u>	<u>1.81</u>

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### 10. Related Party Transactions

The following is a summary of the related party transactions that occurred throughout each of the two years ended December 31, 2008 and 2007:

- During the year ended December 31, 2008, the Company paid or accrued management fees to a Director and Officer of the Company, totalling \$240,000 (2007 - \$490,000), of which \$120,000 (2007 - \$115,000) was charged to geothermal property costs.
- For the year ended December 31, 2008, the Company paid or accrued consulting fees to certain Directors of the Company, totalling \$329,642 (2007 - \$137,820), of which \$306,892 (2007 - \$137,820) was charged to geothermal property costs and the remainder was charged to the statement of operations.
- During the year ended December 31, 2008, the Company paid or accrued \$70,000 (2007 - \$53,500) in director fees.
- Included in accounts payable and accrued liabilities at December 31, 2008 are amounts owed to a Director and Officer of the Company totalling \$11,000 (2007 - \$30,000). The amounts are non-interest bearing, unsecured, and without terms of repayment.
- During the year ended December 31, 2008, the Company entered into three loan agreements with a Director and Officer of the Company as disclosed in Note 6b).

All of the above transactions were incurred in the normal course of operations and are recorded at the exchange amount, being the amount agreed upon by the related parties.

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 11. Commitments

The following is a schedule of the Company's commitments as at December 31, 2008:

	Note 11a)	Note 11b)	Note 11c)	Total
2009	\$ 211,000	\$ 210,000	\$ 16,235,000	\$ 16,656,000
2010	204,000	61,000	5,595,000	5,860,000
2011	127,000	43,000	-	170,000
2012	-	74,000	-	74,000
2013	-	267,000	-	267,000
Beyond	-	171,000	-	171,000
	\$ 542,000	\$ 826,000	\$ 21,830,000	\$ 23,198,000

- a) The Company has minimum annual lease commitments for its office premises and storage facilities in Canada and the United States expiring in 2011.
- b) In order to ensure the Company's geothermal property leases are in good standing certain exploration and development leases, licenses and permits must be maintained and paid for annually. These obligations may be varied from time to time, subject to approval, and are expected to be fulfilled in the normal course of operations of the Company. The lease commitments above are minimum lease payments based on those properties in which the Company presently has an interest and may increase if new applications are granted in the future.
- c) The Company has agreed to terms on the purchase of certain equipment, supplies, and contracts related to the construction of the WGP Unit 1 Geysers Project. The various agreements commit the Company to the following payments during the years ended December 31, 2009 and 2010.
- d) In addition to the above, the Company has entered into an interconnection agreement, whereby the Company is responsible for certain costs associated with the construction of interconnection facilities and associated network upgrades in connection with The Geysers Project. The agreement allows the Company to connect to local electrical grid. The Company estimates the total cost of construction and upgrades to be approximately USD \$7.1 million, to be spent at various times between 2009 and 2010. Under the terms of the agreement, the Company is eligible to be reimbursed certain of these costs subsequent to the construction of the facilities which have not yet commenced.
- e) The Company also has commitments related to its long term debt described in Note 6 and also with regards to asset retirement obligations as disclosed in Note 7.
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# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

### 12. Segmented information

The Company currently operates in one reportable operating segment, being the acquisition, exploration, and development of geothermal properties, which is conducted principally in Canada and the United States of America. The Company is in the exploration stage and, accordingly, has no reportable segment revenues for any of the years presented in these consolidated financial statements. The following geographic data includes assets based on location:

	December 31, 2008			
	Canada	United States	Other	Total
Current assets	\$ 4,832,678	\$ 218,191	\$ -	\$ 5,050,869
Inventory	-	3,142,530	-	3,142,530
Equipment	145,122	1,696,553	-	1,841,675
Geothermal property costs	32,917,076	35,799,177	6,000	68,722,253
Long term deposits	180,300	7,521,162	-	7,701,462
<b>Total assets</b>	<b>\$ 38,075,176</b>	<b>\$ 48,377,613</b>	<b>\$ 6,000</b>	<b>\$ 86,458,789</b>

	December 31, 2007			
	Canada	United States	Other	Total
Current assets	\$ 16,147,167	\$ 66,525	\$ -	\$ 16,213,692
Inventory	-	1,568,143	-	1,568,143
Equipment	150,788	-	-	150,788
Geothermal property costs	31,732,107	2,470,258	-	34,202,365
Reclamation deposits	150,000	97,525	-	247,525
Other long term deposits	-	1,328,475	-	1,328,475
<b>Total assets</b>	<b>\$ 48,180,062</b>	<b>\$ 5,530,926</b>	<b>\$ -</b>	<b>\$ 53,710,988</b>

The following geographic data denotes net losses based on their country of origin for the year ended December 31:

	2008	2007
Canada	\$ 1,113,997	\$ 1,719,566
United States of America	592,941	-
Other International	928,745	-
<b>Net Loss for the Period</b>	<b>\$ 2,635,683</b>	<b>\$ 1,719,566</b>

# Western Geopower Corp.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in Canadian Dollars)

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### 13. Subsequent events

- a) In January 2009, the Company entered into an additional USD\$11 million secured loan facility for drilling, project management, development cost, plant equipment, and working capital purposes. The loan is secured by all of the Company's property and assets owned presently or in the future.

The outstanding principal, together with all accrued interest, fees and other indemnities owing is payable on or before March 2, 2011. Interest shall be calculated monthly on the principal amount outstanding as follows:

- 1% for the first six months after the date of execution of the agreement;
- 1.25% for the second six months after the date of execution of the agreement; and
- 1.5% thereafter.

In connection with this financing, the Company paid financing and transaction fees of approximately \$2,050,000. In addition, the Company must pay a rollover fee equal to 5% of the total principal advanced (estimated to be a total of USD \$2.2 million, of which \$550,000 has been paid) every six-month interval until the maturity date or principal repayment.

The Company also issued the lender 43,495,543 warrants to purchase the same number of common shares in the Company, exercisable at \$0.14 per share and expiring January 23, 2011. The fair value of the warrants, being \$3,741,785, was estimated using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 1.42%; expected dividend yield of 0%; volatility factor of 72.6% and an expected life of 2 years. The fair value of the warrants are included in financing costs and allocated against the long term debt.

### 14. Comparative figures

Certain comparative figures have been reclassified to conform with the current year presentation.



**FORM 51-102F1:  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**December 31, 2008 and 2007**  
(Expressed in Canadian Dollars)

# Western Geopower Corp.

Form 51-102F1: Management's Discussion and Analysis

For the Year Ended December 31, 2008

(Expressed in Canadian Dollars)



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# Western Geopower Corp.

## Form 51-102F1: Management's Discussion and Analysis

For the Year Ended December 31, 2008

(Expressed in Canadian Dollars)



### 1.1 Introduction and Date

This Management Discussion and Analysis ("MD&A") provides a detailed analysis of the business of Western Geopower Corp. ("Western Geopower" or the "Company") and compares its financial results for the year ended December 31, 2008 to prior years. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2008 and 2007 (the "Financial Statements").

These audited consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, Meager Creek Development Corporation, Western Geopower, Inc. and Western Geopower SpA.

The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars (unless otherwise indicated). The Company reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. Additional information relating to the Company, including the most recent Company filings, can be located on the Company's website, [www.geopower.ca](http://www.geopower.ca), or on the SEDAR website, [www.sedar.com](http://www.sedar.com).

This MD&A reflects information available as at April 20, 2009.

Certain statements in this MD&A contain forward-looking information within the meaning of applicable securities laws in Canada ("forward-looking information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this MD&A includes, but is not limited to: the Company expects to complete the purchase of the steam turbine generator for its geothermal power plant and have delivery of same in late 2009 or early 2010; it is expected that the Conditional Use Permit and the Authority to Construct Permit (Air Permit) for the Company's geothermal power plant will be issued in the second half of 2009; the geothermal power plant is projected to start commercial operations in late 2010 or early 2011; it is expected that purchasing contracts will be issued in the latter half of 2009 as required to support engineering design and site delivery requirements for the Company's proposed geothermal power plant; it is expected that a design package for piping systems for the Company's proposed geothermal power plant will be completed in the latter half of 2009 and will be released to contractors for bidding following this; it is expected that a contractor will be selected for final negotiations with respect to construction of the Company's proposed geothermal power plant and a letter of intent issued in mid-2009; the potentially recoverable heat energy of the field is estimated to be equivalent to at least 110 MW of electrical power capacity for a 30-year project life – at Meager Creek; management believes it will be able to raise equity and capital as required in the long term; the Company intends to continue to use various strategies to minimize its dependence on equity capital, including the securing of additional debt financing and maintenance of existing capital by means of cost saving measures; and, management expects the balance of project financing to be secured in the second half of 2009, through some presently undetermined combination of equity, construction loan, and other long-term debt financing.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: the Company is not subjected to any material adverse events normally associated with exploration, development and production of natural resources; the Company is not subjected to additional governmental regulation and that political attitudes towards geothermal production does not change; the Company is able to remain in compliance with its debt obligations; the Company's resource estimates are accurate; the Company's insurance is adequate and that it does not incur any material uninsured liability; the Company is able to comply with environmental regulations; the Company has access to suitable infrastructure; no title defects affect the Company's properties; the Company receives necessary permits on acceptable terms; no material new competition; no significant fluctuation in currency exchange rates and interest rates; the Company is able to access additional capital; no material fluctuations in energy prices; continued access to the Company's key personnel; and, no conflicts of interest arise.



The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: risks normally associated with exploration, development and production of natural resources; risks relating to government regulation; risks relating to indebtedness; risks relating to the reliability of resource estimates; no history of geothermal production; insurance and uninsured risks; environmental risks and hazards; lack of access to required infrastructure; land title defects; risks relating to obtaining permits on acceptable terms; competition; fluctuations in currency exchange rates and interest rates; risks relating to raising additional capital; fluctuations in energy prices; reliance on key personnel; conflicts of interest; and, other risks described in this MD&A.

All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and, except as may be required by law, the Company undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

## 1.2 Business Overview and Overall Performance

### **Business Overview**

The Company was incorporated under the laws of British Columbia, Canada and maintains its corporate head office in Vancouver, British Columbia, Canada. The Company is a reporting issuer in British Columbia, Alberta, Ontario, and Quebec and trades on the TSX Venture Exchange in Canada, under the symbol WGP; and in Germany on the Frankfurt Exchange under the symbol WE6.F.

The Company is in the process of developing its Geothermal Projects held for the generation of commercial production of electricity and has not yet determined the full economic viability of all 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. As discussed in the notes to the audited consolidated financial statements, the recovery of the Company's investment in geothermal properties and the attainment of profitable operations is dependent upon the existence of one or more economic projects and the Company's ability to obtain the necessary financing to complete development and to secure and maintain the appropriate permits, rights and beneficial interest in the properties. The ultimate outcome of these matters cannot presently be determined.

### **Overall Performance**

During the year ended December 31, 2008, the Company recorded a net loss of \$2,635,683 or \$0.01 per share, as compared to a net loss of \$1,719,566 or \$0.01 per share for the year ended December 31, 2007. The increase in net loss reflects the effects of increased expenses related to foreign exchange and professional fees, which were offset by a decrease in stock-based compensation expense over the same period in 2007. The Company also wrote off certain geothermal property review and due diligence costs related to projects in Chile and the Philippines in 2008 totalling \$928,745. A detailed discussion of the Company's expenses and variations between 2008 and 2007 are discussed in further detail under "Results of Operations" below.

As at December 31, 2008, the Company had total assets of \$86,458,789 compared to \$53,710,988 as at December 31, 2007. The significant majority of these assets for both periods are the carrying values of the Company's accumulated geothermal property costs, discussed in further detail below.

# Western Geopower Corp.

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(Expressed in Canadian Dollars)



As at December 31, 2008, the Company had a working capital deficiency of \$9,338,122 compared to working capital of \$16,278,640 as at December 31, 2007. The Company's working capital as at December 31, 2008 includes cash of \$4,874,315 (December 31, 2007 - \$15,918,714). The decrease in both working capital and cash and cash equivalents is attributed to the Company's expenditures on its geothermal projects and general and administrative expenses during the period. In order to maintain an appropriate level of working capital, the Company has completed a number of financings and debt issuances in recent years, as well as relying on cash infusions resulting from the exercise of warrants and options by holders. These recent financings are discussed further under "Liquidity" below.

As at December 31, 2008, the Company had total equipment of \$1,841,675 (net of accumulated amortization) compared to \$150,788 in 2007. During 2008, the Company began incurring costs on the construction of the power plant at The Geysers Geothermal Field (discussed below) and by year end had incurred total construction-in-progress costs of \$1,454,079. In addition, the Company also purchased some camp and field equipment to be used at the various projects, and purchased some computers, office equipment, and leasehold improvements associated with upgrading of the Company's corporate offices in Canada and the U.S.

At December 31, 2008, total long term deposits were \$7,453,937, compared to \$1,328,475 in 2007. The increase in deposits relate to deposits made in 2008 on the purchase of a steam turbine generator and other equipment for the WGP Unit Project. The Company expects to complete the purchase of the steam turbine generator and have delivery of same in 2009.

As at December 31, 2008, the total carrying value of the Company's geothermal properties was \$68,722,253 compared to \$34,202,365 as at December 31, 2007. For a detailed listing of costs incurred with respect to each project, refer to the Consolidated Schedules of Geothermal Property Costs in the audited consolidated Financial Statements for the years ended December 31, 2008 and 2007. During the year ended December 31, 2008, through to the date of this report, the Company carried out the following project activities:

### **Western GeoPower Unit 1 Project – The Geysers Field, California, U.S.A.**

#### Leases

The Company owns a 100% interest in certain lease agreements covering approximately 1,045 acres of land at The Geysers geothermal field located 75 miles north of San Francisco, California. The leases grant the Company the right to re-develop the geothermal reservoir and to build a new plant for electricity generation.

In 2006, the Company retained GeothermEx, Inc. to provide an independent assessment of the resource on the combined leasehold. The report they issued 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, based on certain assumptions, that the Unit 1 leasehold, comprising approximately 600 acres at that date, would commercially support a 28 megawatt of electricity ("MWe") (gross) power plant for a minimum of 20 years, with generation continuing at a slightly reduced factor through 30 years. As the leasehold was increased in June 2007 to 1,045 acres and after reviewing earlier production records from the Unit # 15 operational period, it was calculated that the production could be increased. On April 9, 2008, the Company announced that a detailed review by GeothermEx, Inc. on the expanded 1,045 acre leasehold had determined that, based on certain assumptions, the optimum capacity for the Western GeoPower Unit 1 power plant had increased to 35 MWe (gross).

# Western Geopower Corp.

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### Project Estimated Costs

Based on a report prepared by GeothermEx, Inc. the proposed 35 MWe (gross) plant is expected to have a 98% availability factor. The work in 2008 included the drilling of 4 successful wells, detailed power plant design and engineering work, intensive evaluation of current major equipment and included, gathering system, switchyard and transmission system.

### Regulatory Compliance

For regulatory purposes, the project is being 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 all infrastructures.

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. Approval is projected for the second half of 2009.

In September 2008, the permitting process for the overall project and remaining well drilling program was initiated. The key permits for this process will be the Conditional Use Permit (CUP) issued by Sonoma County and the Authority to Construct Permit (Air Permit) issued by the North Coast Air Quality Management District. It is expected that the CUP and the Air Permit will be issued in the second half of 2009.

### Drilling Program

The drilling program has been designed by independent consultants GeothermEx, Inc., which provides strategic management of the ongoing drilling program. The wells are being directionally drilled from existing drill pads to intersect target zones where commercial steam productivity was encountered by previous production wells during the Unit # 15 operational period. The average total vertical depth per well is approximately 8,000 - 9,000 feet.

With the success of the drilling program to date, projections now call for the drilling of a total of seven production wells and one injector well. Should the drilling of the additional wells continue to yield higher than anticipated capacity factors, fewer wells may be required. In order to preserve cash for critical permitting, design and engineering and long lead power plant equipment activities, it was decided in December of 2008 to put the drilling program on hold until the third quarter of 2009. The 35 MWe Western GeoPower Unit 1 plant is now projected to start commercial operations in late 2010 or early 2011.

### Results of Drilling Program

Four wells (WGP-1, WGP-2, WGP-3, and WGP-4) have been completed, flow tested and the results have been analyzed by GeothermEx, Inc. The drill rig remains in a standby mode on site at WGP-5 and can be reactivated within one month of the decision to recommence the drilling program.

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An average value of 284 psia has been assumed for static reservoir pressure for these wells. Given the design condition of a minimum flowing wellhead pressure of 80 psia, the maximum initial steam flow rates from wells WGP-1, WGP-2, WGP-3, and WGP-4 are estimated at 163,000 lbs/hour; 43,000 lbs/hour; 114,000 lbs/hour; and 143,000 lbs/hour, respectively. The total power capacity placed behind pipe in the four wells is 28.7 MW (gross) or 26 MW (net), representing approximately 70% of the initial steam resource required to supply the planned 35 MWe Western GeoPower Unit 1 plant.

Flow tests on all four wells were conducted by independent consultants GeothermEx. The initial flow rates for the four wells aggregate 463,000 lbs/hour at a design condition of a minimum flowing wellhead pressure of 87 psia. The power plant specifications call for steam requirements of 16,130 lbs/hour per MW (gross) or 17,743 lbs/hour per MW (net).

With respect to well productivity, well WGP-1 appears to be the most prolific well drilled at The Geysers in the past two decades, while well WGP-4 is one of the most productive wells drilled in the field in recent years. Well WGP-2 represents a well productivity level commonly encountered today in other parts of The Geysers.

It should be noted that experience at The Geysers shows that when a plant is put online, the wells undergo a 10% to 30% decline within a few weeks before the productivity stabilizes and the long-term productivity decline trend ensues (estimated at 1% to 3% per year). This initial decline in well productivity before stabilization is caused by transient pressure behavior in the reservoir, including pressure interference between the wells. Assuming an average 20% decline before stabilization, the four completed wells represent a total stabilized flow capacity of 22.6 MWe (net), or 5.6 MWe (net) per well. The 35 MWe plant has been designed to be supplied by 8 wells, each with a stabilized capacity of 4.4 MWe (net). The estimated average stabilized capacity of 5.6 MWe (net) per well to date exceeds this design condition.

### Drilling Cost

The total drilling cost of the four completed wells was \$28.7 million, the average cost being \$7.18 million per well. Two of the wells (WGP-1 and WGP-3) were completed at a cost below this average (about \$5.5 million), whereas the cost of WGP-2 was substantially greater and WGP-4 very close to the average. The anomalously higher cost of WGP-2 was due in part to costs associated with an extended and unusual breakdown of the rig. Therefore, the typical average cost for wells that do not experience significant problems could be lower than the reported average.

### Fuji Steam Turbine Generator

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 MWe Steam Turbine Generator Unit ("STG") for delivery to the Unit 1 project site in late 2009 or early 2010. A project review was completed in late 2008 and the STG is slightly ahead of schedule with measurable progress in rotor, stator and auxiliary parts production in Japan.

### Power Purchase Agreement

On May 20, 2008, the Company announced the signing of a Power Purchase Agreement (PPA) between its wholly-owned subsidiary, Western GeoPower, Inc. and Northern California Power Agency ("NCPA") of Roseville, California for the supply of approximately 265,000 MWhr per year of clean, renewable, baseload electricity at a levelized price of USD\$98 per MWhr for 20 years, from Western GeoPower's 35 MWe Unit 1 geothermal power plant.

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The PPA represents approximately USD\$26 million per year in revenue to Western GeoPower, and approximately USD\$520 million over the 20-year term of the contract. The power price reflects the increase in California's power prices as announced by the California Public Utilities Commission in November 2007.

NCPA, located in Roseville, California, is a joint power agency that provides support for the electric utility operations of 17 member communities and districts in Northern and Central California. Founded in 1968, NCPA owns and operates several power plants that together comprise a 96% emission-free generation portfolio. NCPA has been operating 4 geothermal power plants of 55 MWe each at the Geysers geothermal field, a 252 MWe hydroelectric plant, a 125 MWe simple combustion turbine plant and a 49.9 MWe steam injected turbine plant, for over 25 years.

### Electrical Interconnection

In the fall of 2006, the Company initiated the process to interconnect the power plant to the Northern California power grid. This connection will be at the existing, California Independent System Operator (CAISO) controlled, 115 kV Cloverdale to Geysers #3 transmission line, which is situated in close proximity to the proposed WGP Unit 1 plant site. The transmission line is operated by Pacific Gas and Electric Company (PG&E). The Feasibility and System Impact Studies were completed in early 2008. The Large Generator Interconnection Agreement (LGIA) was approved and signed by all parties in February 2009.

### Engineering-Design

The Company issued a contract to Power Engineers Inc. (PEI) of Hailey, Idaho for the design and procurement support of the Power Plant and the Electrical Switchyard. This contract was issued in May 2008. In addition, the Company has issued a contract to Veizades & Associates (VAI) of San Francisco, California for the design and procurement support of the steam gathering and injection system. This contract was issued in September 2008.

The focus of the power plant engineering has been the development of the plant design criteria and procurement of long lead time delivery/critical process equipment. Procurement efforts have been completed for the steam condenser, cooling tower, gas extraction equipment, gas abatement equipment, main transformer, overhead bridge crane and pumps. It is expected that purchasing contracts will be issued in the latter half of 2009 as required to support engineering design and site delivery requirements.

Additional effort has been made in the power plant design to support the initial building permit process. This includes the preparation of the complete design package for the powerhouse and steam turbine foundations. This package has been submitted to the Sonoma County Building Department for plan check and review.

The design of the steam gathering and injection system was initiated in the fall of 2008. The pipeline corridors have been surveyed and the initial mechanical design of the piping systems has been completed. It is expected that a design package will be completed in the latter half of 2009 and that the design package will be released to the contractors for bidding subsequent to that.

### Project Construction

In October 2008, the Company issued a Request For Proposal ("RFP") for the construction of the power plant. Proposals were received from Contractors in December 2008. The proposals are currently being evaluated for technical and commercial compliance. It is expected that a Contractor will be selected for final negotiations and an engineering, procurement and construction contract to be issued in mid-2009.



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### **South Meager Geothermal Project, British Columbia, Canada**

#### Leases

Under the terms of two licenses of occupation and one geothermal lease, all of which were granted by the British Columbia Ministry of Energy and Mines (expiring at various times in 2017), the Company holds a 100% interest in approximately 4,267 hectares of land located 170 kilometres north of Vancouver.

#### Drilling Program

In 2004, the Company began a program of drilling and well testing to continue the development of the resource. Three full-diameter wells (MC-6, -7, and -8) were drilled in 2004 and 2005. These were targeted to define an inferred source of thermal upflow north of Meager Creek, and they were drilled from a well pad about 700 meters above the creek, on the south flank of Pylon peak. All three of the wells encountered high temperatures at shallower depths than earlier wells. The maximum measured temperatures were 260°C for MC-6, 259°C for MC-7, and 237°C for MC-8.

During the year ended December 31, 2008, the Company conducted flow-testing, and temperature and pressure surveys on wells at the South Meager Geothermal Project under the direction of independent technical consultants GeothermEx, Inc. and a report on the results of the testing has been prepared by GeothermEx.

This testing involved an airlift-assisted flow test of well MC-8, which has demonstrated potentially commercial permeability in the geothermal reservoir at South Meager. Well MC-8 itself did not sustain self-flow after air-lifting. However, wellbore simulation indicates that a well targeting the same permeable zone from a lower elevation could flow at the equivalent of over 6 MW of electrical output.

Based on information available to date, the thermal reservoir at South Meager has an areal extent of 4.5 to 7.5 km<sup>2</sup>, a thickness of 2,800 m, and an average temperature of 220 to 240°C, with a maximum measured temperature of 275°C (in MC-3). From volumetric estimation utilizing a probabilistic simulation technique, the potentially recoverable heat energy of the field is estimated by GeothermEx, Inc. to be equivalent to at least 110 MW of electrical power capacity for a 30-year project life.

Before generation can be realized, wells capable of extracting the heat from the rock by commercial rates of geothermal fluid production must be drilled and tested.

#### Related Activities

The Company continues to liaise with provincial government agencies and key community and First Nations stakeholders in preparation for submission of an Application for certification under the BC Environmental Assessment Act. Terms of Reference for a review by the BC Environmental Assessment Office have been approved, field studies of fisheries and wildlife habitats have been completed, and an Archaeological Overview Assessment has been completed by consultants working in association with the Lil'Wat First Nation under Company sponsorship.

The Company also is acting as Co-ordinator of the Upper Bridge-Lillooet Transmission Cluster which has been selected for consideration under the Transmission Expansion Policy of the BC Transmission Corporation. This project would result in the construction of a common transmission line to service the South Meager project and 18 other renewable power projects in the region, resulting in a substantial cost saving for the Company.

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The Company also is engaged in direct consultations with the BC and federal governments with respect to potential financial incentives for the South Meager project and for renewable power projects generally, and with respect to the updating of both federal and provincial legislation, regulations and permitting governing geothermal projects.

### Outlook

The Company intends to implement the recommendations of GeothermEx, Inc. to conduct a drilling program from the valley floor into the zone of potentially-commercial high permeability identified in the 2008 testing program. To achieve this, the Company will design and permit a new drilling pad in an easily-accessible location near an existing pad and negotiate the terms of a contract to drill the next series of wells from the new pad. To fund the drilling program, the Company is assessing various sources of potential financing, including joint-venture partnerships and/or the issuance of new equity by way of a private placement. There can be no assurances that the Company will be able to obtain the additional financial resources necessary to commence and complete such a drilling program on this project. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail exploration and development activities on this project.

### **South Brawley, California, United States of America**

During the year ended December 31, 2008 and 2007, the Company has entered into certain leases in South Brawley, located in Southern California for the purposes of exploration for a potential geothermal project.

### **Other International Projects**

During the year ended December 31, 2008, the Company reviewed various project opportunities in Chile and the Philippines, including submitting bids for the acquisition of three geothermal exploration concessions in northern Chile to the Chilean Ministry of Mines. Results from the process and project review have not been favourable and the Company determined that a write-off totalling \$928,745 related to the projects was appropriate.

### **Segmented information**

For information on segmented information, please refer to Note 12 of the audited consolidated Financial Statements for the year ended December 31, 2008.

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### 1.3 Selected Annual Information

The following selected annual information has been prepared in accordance with Canadian generally accepted accounting principles, and is expressed in Canadian dollars. The following discussion and analysis of financial conditions and results of operations should be read in conjunction with the Company's audited consolidated Financial Statements and related notes and the disclosures in this MD&A for the years ended December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007	December 31, 2006
Total revenues	\$Nil	\$Nil	\$Nil
Loss before discontinued operations and extraordinary items	\$(2,635,683)	\$(1,719,566)	\$(1,000,971)
Basic and diluted loss per share before discontinued operations and extraordinary items **	\$(0.01)	\$(0.01)	\$(0.01)
Net loss for the year	\$(2,635,683)	\$(1,719,566)	\$(1,000,971)
Basic and diluted loss per share for the year **	\$(0.01)	\$(0.01)	\$(0.01)
Total assets	\$86,458,789	\$53,710,988	\$33,877,379
Total long-term financial liabilities	\$14,388,991	\$833,078	\$833,078
Cash dividends declared	\$Nil	\$Nil	\$Nil

\*\* For the years ended December 31, 2008, 2007, and 2006, potentially dilutive common shares (relating to options and warrants outstanding) were not included in the computation of diluted loss per share because their effect was anti-dilutive.

### 1.4 Results of Operations

The following discussion and analysis of the Company's financial results of its operations should be read in conjunction with the Company's annual audited Financial Statements and related notes.

#### Year ended December 31, 2008 compared to year ended December 31, 2007

The Company's overall expenses were higher in 2008, totalling \$3,657,168 compared to \$2,861,611 in 2007. The key factors related to the increase are summarized as follows:

- During the year ended December 31, 2008, advertising and promotion remained comparable to the prior year totalling \$271,463 (2007 - \$273,772). During 2008, the Company continued to attend a number of conferences. The Company maintains a listing of its shares in both Canada and Germany and contracts with firms in Europe to maintain the German listing in good standing, organize various road shows and conferences, and disseminate news on behalf of the Company throughout Europe.
- Amortization and accretion expense increased in 2008 to \$73,592 from \$33,992 in 2007. This is a result of increased investments in property and equipment including additional computer hardware and software, and camp and field equipment, which were purchased in 2008 and 2007.

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- Consulting and advisory fees were \$132,073 in 2008 compared to \$94,427 in 2007. The increase is a result of further fees being incurred through the addition of a new Chief Financial Officer on an interim basis in 2008.
  - General and administrative expenses increased in 2008 to \$205,480, from \$144,775. The increase is a result of the relocation of the Vancouver office into larger premises, the organization and establishment of the Company's California office and the increase in insurance premiums in 2008.
  - Foreign exchange loss in 2008 was \$834,613, compared to a gain in the prior year of \$289,796. The operations of the Company are impacted by the fluctuations in the US Dollars against the Canadian dollar. The significant fluctuations in foreign exchange rates in countries where the Company operates are difficult to predict and could have a significant variance on the Company's present and future operations. In the early part of 2008, the Canadian dollar had traded at or above par with the US Dollar, but throughout the remainder of 2008, there was a significant strengthening of the US Dollar against the Canadian Dollar.
  - During the year ended December 31, 2008, directors' fees decreased to \$70,000, from \$88,500 in 2007. The decrease was a result of the resignation of one of its directors in 2007.
  - During the year ended December 31, 2008, interest and finance costs increased to \$139,168, from \$3,401 in 2007. The increase was the result of an increased debt load from the 2008 financing.
  - Management fees totalled \$125,000 in 2008 compared to \$375,000 in 2007. The decrease is a result of a one-time bonus paid to the CEO in 2007. Also, effective March 1, 2007, the monthly fees increased from \$15,000 to \$20,000 per month, of which 50% of the management fees are charged to geothermal property costs.
  - During the year ended December 31, 2008, professional fees amounted to \$98,139, compared to \$57,201 in 2007. The increase in these fees, which include legal and accounting fees, is a result of amounts payable with regards to audit and tax structuring, review of new land and property claims and engaging counsel to review and consider various financing strategies.
  - Regulatory fees and investor relations increased to \$59,847 in 2008, from \$37,206 in 2007. The increase was a result of increased overall activity in financing and operations which impacted regulatory requirements and investor relations.
  - During the year ended December 31, 2008 rent increased to \$81,894 from \$61,893 as a result of the Vancouver office's relocation, the opening of the California office, as well as the agreement to lease additional off-site storage facilities during 2008.
  - In 2008, the Company incurred salary expense of \$365,917 (2007 - \$352,689). The increase from the prior year relates to the hiring of additional professional staff in 2008 and the related recruitment fees incurred as a result.

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- During 2008, the Company expensed stock-based compensation of \$172,383 in 2008 compared to \$1,502,314 in 2007. The fair value of the options expensed was estimated at the date of grant using the Black-Scholes option pricing model (the assumptions used for the fair value calculation are discussed in the Financial Statements). During the year ended December 31, 2007, the Company issued a greater number of options than in 2008, to various consultants, directors, employees, and management, which resulted in an increased stock based compensation expense for the prior year.
- Travel decreased in 2008 to \$83,261 from \$124,460 in 2007, as a result of the increased focus on The Geysers project and consequently in 2008 travel related significantly more to the Company's project in California (which was capitalized to the property).
- During the year ended December 31, 2008, the Company wrote-off \$928,745 related to review of potential projects and due diligence in Chile and the Philippines. There were no such write-offs in 2007.

The Company's other income and recoveries related to interest income and future income tax recoveries. The key factors related to these items are as follows:

- Interest income related to interest earned on cash and cash equivalent balances decreased in 2008 to \$170,141 from \$301,133 in 2007. The decreased income reflects the decrease in the overall interest rate earned during 2008 compared to 2007 and the fact that the average cash balance in 2008 was lower than in 2007.
- During the year ended December 31, 2008, the Company recorded a recovery on future income taxes of \$851,344, compared to a recovery of \$840,912. The slight increase in the recovery relates primarily to an increase in future income tax assets that has been offset against certain future income tax liabilities.

## 1.5 Summary of Quarterly Results

The following selected quarterly financial information has been prepared in accordance with Canadian generally accepted accounting principles, is expressed in Canadian dollars, and is derived from the Company's unaudited quarterly consolidated financial statements for the past eight quarters.

	December 2008	September 2008	June 2008	March 2008
Total revenues	\$Nil	\$Nil	\$Nil	\$Nil
Net loss before discontinued operations and extraordinary items	\$(1,328,842)	\$(795,183)	\$(402,322)	\$(109,336)
Basic and diluted loss per share before discontinued operations and extraordinary items **	\$(0.01)	\$(0.00)	\$(0.00)	\$(0.00)
Net loss for the period	\$(1,328,842)	\$(795,183)	\$(402,322)	\$(109,336)
Basic and diluted loss per share for the period **	\$(0.01)	\$(0.00)	\$(0.00)	\$(0.00)

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	December 2007	September 2007	June 2007	March 2007
Total revenues	\$Nil	\$Nil	\$Nil	\$Nil
Net income (loss) before discontinued operations and extraordinary items	\$544,479	\$(1,821,663)	\$(292,212)	\$(150,170)
Basic and diluted earnings (loss) per share before discontinued operations and extraordinary items **	\$0.00	\$(0.01)	\$(0.00)	\$(0.00)
Net income (loss) for the period	\$544,479	\$(1,821,663)	\$(292,212)	\$(150,170)
Basic and diluted earnings (loss) per share for the period **	\$0.00	\$(0.01)	\$(0.00)	\$(0.00)

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\*\* For the years ended December 31, 2008, 2007, and 2006, potentially dilutive common shares (relating to options and warrants outstanding) were not included in the computation of diluted loss per share because their effect was anti-dilutive.

The variation seen over the above quarters is primarily dependent upon the success of the Company's on-going property evaluations and acquisition program and the timing and results of the Company's activities on its current properties, none of which is possible to predict with any accuracy.

The Company will continue to incur losses until such time as the commercial development of a sustainable and profitable producing geothermal energy plant is completed and commissioned. The above losses are also impacted by the amount of stock options granted in any given period which can give rise to significant stock-based compensation expenses, the amount and variation of foreign exchange gains and losses (which is impacted by the fluctuations in foreign currency rates, especially the US Dollar), and the impact of future income tax expense or recovery (which can fluctuate based on items such as changes in tax rates and amounts of non-capital losses and other temporary tax differences).

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## 1.6 Liquidity

The Company currently has no operating revenues other than interest income and relies primarily on equity and debt financing, as well as the exercise of warrants and options to fund its exploration, development and administrative costs. This situation is unlikely to change until such time as the Company can develop a profitable geothermal energy project for the delivery of clean, base-load electricity generation.

Other than those obligations disclosed in the notes to its audited consolidated Financial Statements and discussed in this MD&A for the years ended December 31, 2008 and 2007, the Company has no other long-term debt, capital lease obligations, operating leases or any other long-term obligations.

As at December 31, 2008, the Company had a working capital deficiency of \$9,338,122 compared to working capital of \$16,278,640 as at December 31, 2007. The Company's working capital as at December 31, 2008 includes cash of \$4,874,315 (December 31, 2007 - \$15,918,714). The decrease in both working capital and cash and cash equivalents is attributed to the Company's expenditures on its geothermal projects and general and administrative expenses during the year.

During the year ended December 31, 2008, the Company issued 42,732,960 units at a price of \$0.25 per unit for total gross proceeds of \$10,683,240. Each unit consisted of one common share and one transferable share purchase warrant exercisable into one common share for a period of 24 months from closing at a price of \$0.45 per share during the first 12 months and \$0.50 per share during the last 12 months. In addition, the Company received gross proceeds in the amount of \$445,500 from the exercise of 1,530,000 warrants and \$147,940 from the exercise of 672,000 stock options.

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In December 2008, the Company entered into a US\$11 million (gross) secured loan agreement. Interest is payable at a rate of 1% per month for the first six months, 1.25% per month for the second six month period, 1.5% per month thereafter. The lender has the right to elect to receive the payment of interest on the loan in the form of common shares of the Company. As part of the consideration the Company paid \$1,641,862 in financing fees and transaction fees in cash associated with the loan and also agreed to issue 29,629,629 warrants of the Company, with each warrant being exercisable for a period of 24 months at a price per warrant of \$0.18. The warrants had a fair value of \$1,357,320 (using the Black-Scholes option pricing model). In addition, the Company must pay a rollover fee equal to 5% of the total principal advanced (estimated to be a total of USD \$2.2 million, of which USD \$550,000 has been paid) every six-month interval until the maturity date or principal repayment.

In January 2009, the Company entered into an additional US\$11 million (gross) secured loan agreement. Interest is payable at a rate of 1% per month for the first six months, 1.25% per month for the second six month period, 1.5% per month thereafter. As part of the consideration the Company paid \$2,050,000 in financing fees and transaction fees associated with the loan and also agreed to issue 43,495,543 warrants of the Company, with each warrant being exercisable for a period of 24 months at a price per warrant of \$0.14. The proceeds of these two loans are to be used for drilling, project management, development cost, plant equipment, and up to US\$300,000 in monthly working capital and general corporate purposes. The warrants had a fair value of \$3,741,785 (using the Black-Scholes option pricing model). In addition, the Company must pay a rollover fee equal to 5% of the total principal advanced (estimated to be a total of USD \$2.2 million, of which USD \$550,000 has been paid subsequent to year end) every six-month interval until the maturity date or principal repayment.

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.

The Company has a history of losses and no operating revenue, other than interest income. The ability of the Company to carry out its planned business objectives and make required payments on its existing indebtedness is dependent on the ability to raise adequate financing from lenders, shareholders, and other investors and/or generate operating profitability and positive cash flow. There can be no assurances that the Company will continue to obtain additional financial resources necessary and/or capability to achieve profitability or positive cash flows. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations, exploration and development activities and would be unable to make the payments required on its existing indebtedness as described above. The consolidated Financial Statements do not reflect adjustments, which could be material, to the carrying values of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

The Company's cash and cash equivalents are invested in business accounts with a major Canadian financial institution and a U.S. financial institution, and are available on demand for the Company's programs, and are not held in any asset backed commercial paper investments.

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### 1.7 Capital Resources

Historically, the Company's only source of funding has been the issuance of equity and debt securities for cash. The Company has issued common share capital during recent years, pursuant to public offerings, private placement financings, and the exercise of warrants and options. More recently the Company has issued debt instruments as noted above. The Company's access to exploration and development financing when the financing is not transaction specific is always uncertain. There can be no assurance of continued access to significant equity or debt funding. The Company's ability to raise additional funds may be impacted by future exploration results and changes in market conditions. Management believes it will be able to raise equity and capital as required in the long term, but recognize there will be risks involved that may be beyond their control. In particular, the current economic downturn has severely limited the ability of the Company to raise equity financing, limited its options with respect to issuing debt financing and decreased the likelihood of the Company successfully obtaining construction financing for its proposed power plant. The Company intends to continue to use various strategies to minimize its dependence on equity capital, including the securing of additional debt financing and maintenance of existing capital by means of cost saving measures. Management expects the balance of project financing to be secured in the second half of 2009, through some presently undetermined combination of equity, construction loan, and other long-term debt financing.

For information on the Company's obligations and commitments see Notes 6, 7, 11, and 13 in the audited consolidated Financial Statements for the year ended December 31, 2008.

As at April 20, 2009, the Company had 18,350,000 stock options and 118,388,210 warrants outstanding which, if exercised, would bring a further \$36.3 million to the Company's treasury upon exercise.

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### 1.8 Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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### 1.9 Transactions with Related Parties

For information on related party transactions, please refer to Note 10 of the audited consolidated Financial Statements for the year ended December 31, 2008.

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### 1.10 Fourth Quarter

During the fourth quarter of 2008, the Company agreed to terms on a long term debt financing as discussed in Section 1.6, *Liquidity* and in Note 6c) of the audited consolidated financial statements.

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### 1.11 Proposed Transactions

Although the Company is currently investigating a number of property targets as at the date of this MD&A, there are no proposed transactions that the board of directors, or senior management who believe that confirmation of the decision by the board is probable, have decided to proceed with.



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### 1.12 Critical Accounting Estimates

The Company's significant accounting policies are presented in notes 2 and 3 of the audited consolidated Financial Statements for the year ended December 31, 2008. The preparation of audited consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reported period. These estimates include:

- the carrying values of geothermal property costs;
- the carrying values of equipment;
- the rates of amortization of equipment;
- the valuation allowances and estimates for future income tax obligations;
- the valuation and estimates used in calculating site reclamation and closure costs; and
- the valuation of stock-based compensation.

Management believes the estimates used are reasonable; however, actual results could differ materially from those estimates and, if so, would impact future results of operations and cash flows. Factors that could potentially affect these estimates include risks inherent in geothermal exploration and development, prices and markets for electricity, changes in government policy and changes in foreign exchange rates. The Company is engaged in an industry that is dependent on a number of factors that may be beyond the Company's control 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.

Management has assessed the carrying value of its assets, and other than write-downs to certain geothermal property interests, does not believe the remaining assets have suffered any impairment. The Company is in the development stage and defers all expenditures related to its geothermal properties until such time as the properties are put into production, sold, or abandoned. Management assesses the exploration results on its geothermal projects and determines whether results to date warrant further exploration. If results do not indicate potential for an economic geothermal property, the deferred exploration costs are written off. Under this method, all amounts shown as geothermal properties represent costs incurred to date less amounts, if any, amortized and/or written off and do not necessarily represent present or future values.

Management has made significant assumptions and estimates in determining the fair market value of stock based compensation granted to employees and non-employees and the value attributed to various warrants issued on financings. These estimates have an effect on the stock based compensation expense recognized, the amounts capitalized to geothermal property costs, the contributed surplus and share capital balances on the Company's balance sheet. Management has made estimates of the life of stock options and warrants, the expected volatility and expected dividend yields that could materially affect the fair market value of these types of securities. The estimates were chosen after reviewing the historical life of the Company's options and analyzing share price history to determine volatility.

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 33% and an inflation factor of 2%. Future asset retirement obligations are not recorded where the timing or the amount of the remediation costs cannot be reasonably estimated.



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### 1.13 Changes in Accounting Policies including Initial Adoption

The Company's accounting policies, including changes in accounting policies (including financial instruments), initial adoption, and recent accounting policies not yet adopted are discussed in Notes 2 and 3 to the audited Financial Statements for the year ended December 31, 2008.

Of particular note, in January 2006, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2010. As the International Accounting Standards Board currently, and expectedly, has projects underway that should result in new pronouncements that continue to evolve IFRS, and as the Canadian convergence initiative is in an early stage as of the date of these audited consolidated financial statements, it is premature to currently assess the impact of the Canadian initiative on the Company.

The Company is currently developing its IFRS conversion plan which will include a deeper analysis of the IFRS standards, with priority being placed on those that have been identified as possibly having a significant impact. The analysis of each IFRS standard will include identifying the differences between IFRS and the Company's accounting policies, assessing the impact of the difference, and where necessary, analyzing the various policies that it could elect to adopt. Changes in accounting policies are likely and may materially impact the Company's consolidated financial statements. The Company's IFRS conversion plan will also assess the impact of IFRS on the Company's information technology and data systems, as well as financial reporting expertise, including training requirements.

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### 1.14 Financial Instruments and Other Instruments

Information regarding financial and other instruments and their risks associated with the Company's operations are discussed in Notes 2m) and 3(a)(iv) of the audited consolidated Financial Statements.

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### 1.15 Other MD&A Requirements

The Company's web site address is [www.geopower.ca](http://www.geopower.ca). A copy of this MD&A, the 2008 audited consolidated financial statements, previously published MD&A, previously published consolidated financial statements, and other information, is available on the Company's web site or on the SEDAR website at [www.sedar.com](http://www.sedar.com). The Company is listed on the TSX Venture Exchange with the trading symbol "WGP" and on the Frankfurt Stock Exchange under the symbol WE6.F.

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#### 1.15.1 Additional Disclosure for Venture Issuers Without Significant Revenue

For additional disclosures concerning the Company's general and administrative expenses and a breakdown of the geothermal property costs, please refer to the Company's Consolidated Statements of Operations and Comprehensive Loss and the Consolidated Schedules of Geothermal Property Costs contained in its audited consolidated Financial Statements for the years ended December 31, 2008 and 2007 that are available on the Company's website at [www.geopower.ca](http://www.geopower.ca) or on the SEDAR website at [www.sedar.com](http://www.sedar.com). The Company does not have any capitalized or expensed research and development costs or any deferred development costs for the years ended December 31, 2008 and 2007.



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### 1.15.2 Disclosure of Outstanding Share Data

The following describes the outstanding share data of the Company as at April 20, 2009. For further information and details concerning outstanding share data, options, and warrants, see Note 9 and the Consolidated Statements of Changes in Shareholders' Equity, included in the audited consolidated Financial Statements for the years ended December 31, 2008 and 2007:

	Number Outstanding
Common shares	234,244,924
Options to purchase common shares	18,350,000
Warrants to purchase common shares	118,388,210

At the effective date of this MD&A, if all of these options and warrants were exercised, a total of 370,983,134 common shares would be issued and outstanding.

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### 1.15.3 Additional Disclosure for Reporting Issuers with Significant Equity Investees

Not applicable.

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### 1.15.4 Risk Factors

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural geothermal properties, principally in Canada and the United States of America. The degree of risk increases substantially where the Company's properties are in the exploration stage as opposed to the development stage, and as such, investment in the securities of the Company should be considered as highly speculative.

Until the balance of the current development program is completed, the viability of the South Meager Geothermal Project and the Western GeoPower Unit 1 Project are 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 the financing of 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. Due to the nature of the Company's business and the present stage of exploration and development in its geothermal properties, the following risk factors, among others, will apply:

#### Exploration, Development and Operating Risks

The exploration for and development of geothermal deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties that are explored are ultimately developed into producing projects. Major expenses may be required to locate and establish geothermal properties, and to construct processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by the Company will result in a profitable commercial geothermal operation. Whether a project will be commercially viable depends on a number of factors, some of which are: the particular attributes of the property, such as potential well capability and the proximity to infrastructure; electricity prices; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, generation of electricity, favorable financing arrangements, and environmental protection. The exact effect of these factors cannot be accurately predicted but could have a material adverse effect upon the Company's operations.



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Geothermal operations generally involve a high degree of risk. The operations of the Company are subject to all the hazards and risks normally encountered in the exploration, development and production of natural resources, including unusual and unexpected geologic formations, seismic activity, rock bursts, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, wells and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, geothermal operations are subject to hazards such as equipment failure, which may result in environmental damage and consequent liability.

There is no certainty that the expenditures made by the Company toward the search and evaluation of geothermal properties will result in discoveries of viable projects with potential for profitable geothermal and electricity-generating capability.

### Government Regulation Risks

The majority of the Company's operations are presently conducted in Canada and the U.S., and thus, exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to: changing political conditions and governmental regulations. Changes, if any, in geothermal power or investment policies or shifts in political attitudes in any of these countries may adversely affect the operations or profitability of the Company. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, and water use and site safety. Failure to comply strictly with applicable laws, regulations and local practices relating to property rights applications and tenure could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company.

### Risks Relating to Indebtedness

The loan agreements that the Company has entered into contain numerous restrictive covenants that limit the Company's discretion with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of the Company to create or allow to exist liens, grant or permit any security for debt, sell or dispose of its business or any material part thereof, merge or amalgamate, purchase assets or shares outside the ordinary course of business, make any dividend or distribution to shareholders or modify certain geothermal leases. A failure to comply with the obligations in the loan agreements could result in a default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If indebtedness under the loan agreements were to be accelerated, the Company would be unable to repay such indebtedness unless alternative borrowings or equity financing was available. The loans are also secured by all of the Company's present and future acquired property. There can be no assurance that the assets of the Company would be sufficient to repay in full that indebtedness. In addition, the loan agreements require monthly interest payments, mature in December of 2010 and January 2011 and provide for rollover fees to be paid every six month interval until the maturity date or principal repayment. There can be no assurance that future borrowings or equity financing will be available to the Company, or available on acceptable terms, in an amount sufficient to fund the Company's needs. If the loans are accelerated or if the Company is unable to make payments under the indebtedness when due and alternative borrowings or equity financing is not available, the Company's business, financial condition, liquidity and results of operations could be severely adversely affected.



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### Reliability of Resource Estimates

There is no certainty that any of the geothermal resources identified at any of the Company's properties to date will be realized. Until a resource is actually defined and capacity assessed, the productivity assessments must be considered estimates only. Any material change in estimates of the geothermal resources may affect the economic viability of any project undertaken by the Company. In addition, there can be no assurance that electrical generation capabilities in small-scale tests will be duplicated in a larger scale test under on-site conditions or during production.

Fluctuations in the prices of electricity, results of drilling, testing and production and the evaluation of studies, reports and plans subsequent to the date of any estimate may require revision of such estimates. Any material reductions in estimates of geothermal capabilities could have a material adverse effect on the Company's results of operations and financial condition.

### No History of Geothermal Production

The amounts attributed to the Company's geothermal properties in our Financial Statements represent acquisition, exploration and development costs and should not be taken to represent realizable value. The Company has yet to have any interest in a producing geothermal property and has consequently not generated any revenues from operations and we expect to incur substantial operating losses, until such time as the Western GeoPower Unit 1 Project is operating at maximum capacity. There is no assurance that commercial quantities of electricity will be produced at any of the Company's properties or any future properties, nor is there any assurance that the exploration programs of the Company thereon will yield any positive results. Even if a commercially capable geothermal property is discovered, there can be no assurance that any property will ever be brought to a stage where electricity can profitably be produced thereon. Factors which may limit the ability of the Company to produce electricity from its properties include, but are not limited to, the sale price of electricity, availability of additional capital and financing and the nature of any resource deposits.

### Insurance and Uninsured Risks

The business of the Company is subject to a number of risks and hazards in general, including adverse environmental conditions, industrial accidents, labor disputes, unusual or unexpected geological conditions, ground or slope failures, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to the Company's property or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays in drilling, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the resource exploration industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which it may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.



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### Environmental Risks and Hazards

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in geothermal operations or in the exploration or development of natural resources may be required to compensate those suffering loss or damage by reason of the business activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of natural resource and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or require abandonment or delays in development of new geothermal properties.

### Infrastructure

Drilling, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supplies are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage or, government or other interference in the maintenance or provision of such infrastructure could adversely affect the operations, financial condition and results of operations of the Company.

### Land Title

There may be undetected title defects affecting the Company's properties. Title insurance generally may not be available, and the ability of the Company to ensure that it has obtained secure claim to individual resource properties may be severely constrained. The Company may be subject to prior unregistered liens, agreements, transfers or claims, and title may be affected by, among other things, undetected defects which could have a material adverse impact on the Company's operations. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

### Permits

The Company cannot be certain that it will receive, on acceptable terms, the necessary permits to conduct further exploration and to develop its properties. The failure to obtain such permits, or delays in obtaining such permits, could increase the Company's costs and delay its activities, and could adversely affect the operations of the Company.



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### Competition

The natural resource industry is competitive in all of its phases. The Company faces strong competition from other geothermal companies in connection with the acquisition of properties capable of producing geothermal power. Some of these companies may have greater financial resources, operational experience and technical capabilities than the Company. As a result of this competition, the Company may be unable to maintain or acquire attractive resource properties on terms it considers acceptable or at all. Consequently, the revenues, operations and financial condition of the Company could be materially adversely affected.

### Hedging

The Company does not have a hedging policy with regards to foreign exchange or interest rate contracts and has no current intention of adopting such a policy. Accordingly, the Company has no protection from volatility related to foreign currency and variable interest rate fluctuations.

### Additional Capital

The development and exploration of the properties in which the Company holds an interest will require substantial additional financing. In particular, the Company must secure construction financing to commence construction of the Geysers Field power plant and maintain the Company's current timeline for the project. Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration, development or production on any or all such properties or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available particularly, given the current economic environment where access to debt and equity financing has been severely limited, or that, if available, the terms of such financing will be favorable to the Company. In addition, any future financing may be dilutive to existing shareholders of the Company.

### Fluctuations in Energy Prices

The price of the common shares, and the consolidated financial results and exploration, development and geothermal activities of the Company, may in the future be significantly and adversely affected by declines in the prices of energy. The prices of energy may fluctuate widely and are affected by numerous factors beyond the control of the Company such as the sale or purchase of commodities by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuations in the value of the United States dollar and other foreign currencies, global and regional supply and demand, the political and economic conditions and production costs of major geothermal-producing countries throughout the world, the cost of substitutes and carrying charges. Future serious price declines in the market prices of energy could cause continued development of and commercial production from the properties in which the Company holds an interest to be impracticable. Depending on the prices of energy, cash flow from operations may not be sufficient and the Company may lose its interest in, or may be forced to sell, some of its properties. Future production from the Company's properties is dependent upon the prices of energy being adequate to make these properties economically viable.

In addition to adversely affecting the resource estimates of the Company and its financial condition, declining commodity and energy prices can affect operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or be required under financing arrangements related to a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or interrupt operations until the reassessment can be completed.

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In order to mitigate this risk, during 2008, the Company also agreed to the terms of a Power Purchase Agreement between its wholly-owned subsidiary, Western GeoPower, Inc. and Northern California Power Agency of Roseville, California, for the supply of approximately 265,000 Megawatt-hours ("MWh") per year of clean, renewable, baseload electricity at a price of \$119 (USD\$98) per MWh for 20 years, from the Company's proposed 35 MWe geothermal power plant at the Company's WGP Unit 1 Geysers Project.

### Exchange Rate Fluctuations

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. Commodities and energy are generally priced in U.S. dollars and the costs of the Company are incurred in Canadian dollars or U.S. dollars. The appreciation of non-U.S. dollar currencies against the U.S. dollar can increase the cost of exploration and production in U.S. dollar terms, which could materially and adversely affect the Company's profitability, results of operations and financial condition.

### Dividend Policy

No dividends on the Common Shares have been paid by the Company to date. The Company currently plans to retain all future earnings and other cash resources, if any, for the future operation and development of its business. Payment of any future dividends, if any, will be at the discretion of the Company's board of directors after taking into account many factors, including the Company's operating results, financial condition and current and anticipated cash needs.

### Key Personnel

The Company is dependent upon the services of key executives, including the directors of the Company and a small number of highly skilled and experienced executives and personnel. Due to the relatively small size of the Company, the loss of these persons or the inability of the Company to attract and retain additional highly-skilled employees may adversely affect its business and future operations.

### Conflicts of Interest

Other than Kenneth MacLeod, the President and Chief Executive Officer, none of the Company's directors or officers devote their full time to the Company's affairs. Most of the Company's directors and officers are also directors, officers and shareholders of other natural resource companies, as a result of which they may find themselves in a position where their duty to another company conflicts with their duty to us. There is no assurance that any such conflicts will be resolved in the Company's favor. If any of such conflicts are not resolved in favor of the Company, operations may be adversely affected.

### Changes to Exploration Programs

The Company may make changes to planned programs at anytime. This could be done due to a number of factors including results obtained to date, changes in regulations, changes in energy prices, identification of new, more important, targets and a number of other possible causes.

### Share Price Volatility and Liquidity

Publicly quoted securities are subject to a relatively high degree of price volatility. It may be anticipated that the quoted market for the Company's shares will be subject to market trends in general, notwithstanding any potential success in creating sales and revenues. In addition, the Company's shareholders may be unable to sell significant quantities of shares into the public trading markets without a significant reduction in the price of their shares, if at all.

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## **1.15.5 Internal Controls and Disclosure Controls over Financial Reporting**

As a venture issuer, the Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures and internal controls over financial reporting as defined under Multilateral Instrument 52-109.

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