

Special Situations

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Old Faithful! If you've ever seen Yellowstone's famous geyser Old Faithful erupt, then the power of geothermal energy shouldn't surprise you. It is, however, only one reminder of the energy and power emanating from beneath the earth's surface.

As you probably know, the core of the earth is hot, real hot, with temperatures reaching 9,000 degrees Fahrenheit. Though most of that heat stays put, a small portion makes its way to the surface. Volcanoes, geysers, and hot springs are examples of this.

Harnessing energy by mining geothermal heat is a proven technology. The geysers in California have produced electric power continuously for 40 years. Plants have also been in operation in Nevada, Utah and Hawaii for over 20 years. The pioneering Larderello field in Italy has been productive since 1904.

With the alternative energy market growing rapidly, the western United States has become a hotbed (pardon the pun) of geothermal power projects, with over 40 currently under development in the region. One company, U.S. Geothermal, is making headway on its Raft River project, which comprises 8.2 square miles of land located at Raft River, Idaho, on the site of a former geothermal installation of the U.S. Department of Energy.

U.S. Geothermal is the kind of company that that we love here at EQUITIES. After all, who wouldn't? First, it's in an exciting market that will continue to grow. Second, it has raised over \$54 million to date, and has impressive hedge fund and institutional investors like Goldman Sachs, SAC Capital and the Wexford Capital. And finally, the company has already signed agreements with major regional power companies to purchase the company's geothermal energy. Oh, and a few more things: U.S. Geothermal has \$15 million cash in the bank, \$22 million in assets and no long-term debt. Now, that's hot. Geothermal hot.

WARNING: There is no fee for being selected as an EQUITIES Special Situation. Our only requirement is being a real company whose stock we believe has the potential to increase 50% to 100% over the next two years. We have tried to be objective, but may have failed. You, readers must decide for yourself.

Be careful to place strict limits on your purchases. The price quoted for the recommended stock is of the date this report went to the printer, who naturally needs time to produce and mail our newsletter. For current quotations, go online. If a stock rises out of our price range, there will always be another opportunity or another stock with a bargain price. Remember, the price you pay will determine your profit (or loss) when you sell.

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U.S. Geothermal, Inc.
www.usgeothermal.com

Generating power that is clean, renewable and environmentally friendly.

Big name institutional investors own stakes in company.

A proven technology with a long history.

Environmental laws are encouraging the rapid expansion of alternative energy in the West.

OTC BB:	UGTH	Shares Outstanding:	43.8 million
TSX.V:	GTH	Estimated Float:	26 million
Recent Price:	\$1.09*	Stock Market Cap:	\$48 million
52-Week Range:	\$1.49 – 0.60	Long-Term Debt:	None
Shareholder's Equity:	\$21 million	Total Assets:	\$22 million
Book Value per Share:	\$0.49		

* OTC BB Price

BALANCE SHEET DATA
 (as of September 30, 2006)

Total Assets:	\$22 million
Long-Term Debt:	None
Shareholders' Equity:	\$21 million
Book Value Per Share:	\$0.49
Shares Outstanding:	43 million

RECOMMENDATION

U.S. Geothermal, based in Boise, Idaho is building the first geothermal power plant in the Northwest. A renewable energy development company, U.S. Geothermal owns and leases approximately 8.2 square miles of geothermal land located at Raft River, Idaho, where it commenced the first phase of a drilling operation several months ago.

The Department of Energy estimated the total energy output potential of the Raft River project to be approximately 200 megawatts (MW). With just half that amount of power, the company will be able to service the energy needs of over 100,000 homes.

Environmental laws are encouraging the expansion of alternative energy in the West. Twenty-two states now have their own renewable energy laws. The leader is California, which requires that 20% of electricity come from renewable sources by 2010. In fact, the U.S. led the world in wind energy installations last year. Other renewable energy sources that offer clean alternatives to fossil fuels are solar energy and hydropower.

Harnessing geothermal power is a proven technology. The geysers in California have produced electric power continuously for 40 years. Plants have also been in operation in Nevada, Utah and Hawaii, for over 20 years. The pioneering Larderello field in Italy has been productive since 1904.

The company has already signed a 20-year power purchase agreement (PPA) with Idaho Power—the utility that services southern Idaho and eastern Oregon—to sell 10 MW of electricity from a phase 1, 13 MW power plant scheduled to come online in October 2007. The PPA calls for a price schedule that starts at \$52.69/MWh and increases at 2.3% per year to a maximum of \$81.25 per MWh over the term of the contract.

U.S. Geothermal is also planning phase II of the project, which calls for two more 13-MW facilities. For this phase, U.S. Geothermal is in negotiations for a PPA with Eugene Water and Electric Board and another Pacific Northwest utility with attractive prices for the power.

The PPAs for both phases will bring in approximately \$15 million per year for the electricity generated, according to Daniel Kunz, President and CEO of U.S. Geothermal. Over the 20 years of the contracts, this would come to about \$300 million just for the power. The company also has rights for (green tags) renewable energy credits that it has the right to sell to customers for anywhere between \$0.01 and \$0.04 per kilowatt-hour.

The company has assigned an agreement to sell \$4.6 million worth of renewable energy credits to Holy Cross Energy, a Colorado cooperative electric, as part of phase 1 power production from 2008 to 2017.

As part of its expansion strategy, U.S. Geothermal recently acquired a second property for a geothermal project at Neal Hot Springs in eastern Oregon near the Idaho border.

The cash-generating potential of U.S. Geothermal's projects has enticed big investors to buy shares in the company. For instance, SPCP Group, an entity managed by \$4 billion hedge fund giant Silver Point Capital, owns 15.99% of U.S. Geothermal. Goldman Sachs owns just over 8% of the company, and the Winslow Green Growth Fund owns over 5% of the company. Wexford Capital, which manages \$5 billion for individual and institutional investors, has a 5.78% stake in the company. S.A.C. Capital, which manages \$6 billion, also owns 5.78% of U.S. Geothermal.

And if one of the criteria you consider when looking at a growth stock is insider ownership, officers and directors of the company own over 12% of the outstanding shares.

BUSINESS

U.S. Geothermal is engaged in the development of geothermal energy power plants in the Raft River area of Idaho. The company's Raft River geothermal project encompasses approximately 8.2 square miles of land located near Malta, Idaho. Geothermal's 10 MW phase 1 plant will supply enough electricity for 10,000 homes or 25,000 to 30,000 people.

Geothermal Energy

Geothermal energy is energy recovered from the heat of the earth's interior. Geothermal heat can appear in the form of volcanoes, hot springs and geysers. The high temperatures in the earth's interior are a result of heat trapped during the formation of the planet, as well as the decay of naturally occurring radioactive elements. Temperatures below the surface can reach 4,200° C, decreasing to 650 to 1200° at depths of 80km-100km. Through the deep circulation of groundwater and the intrusion of molten magma into the earth's crust at depths of only 1km-5km, the heat is brought closer to the earth's surface. The molten rock then heats the surrounding groundwater, which is forced to the surface in certain areas in the form of steam or hot water (i.e. hot springs, geysers). The heat energy close to or at the earth's surface can be utilized as a source of energy.



Phase 1

U.S. Geothermal plans to develop the Raft River project in two or more phases. For phase 1 of development at Raft River, the company will commercialize the existing production wells and energy fields through the construction and operation of a 13-megawatt binary cycle geothermal power plant that will provide the energy to be delivered under the existing power purchase agreement with Idaho Power Company. Final engineering, equipment procurement and construction is anticipated to take approximately 14 to 16 months, and the initial power plant is anticipated to begin production by October 2007.

The total phase 1 construction and development costs are expected to be \$39 million for the construction of a binary cycle geothermal power plant. The company has completed project financing for phase 1 of the project, whereby Raft River I Holdings, LLC, a subsidiary of The Goldman Sachs Group Inc., has invested \$34 million in cash and U. S. Geothermal has contributed \$5 million in cash and approximately \$1.5 million in property to Raft River Energy I LLC, the phase 1 project joint venture company.

Phase 2

Phase 2 will involve the construction and operation of two additional 13-megawatt power plants. Strong regional interest in geothermal power has resulted in several utilities entering into discussions with U.S. Geothermal to purchase the electrical power output from the phase 2 project. Subject to drilling confirmation of the availability of sufficient geothermal resource, the output from all three power plants at Raft River could be as much as 39 megawatts.

The U.S. Geothermal Property

In addition to the energy rights that the company leases from third parties the company owns outright geothermal lands at Raft River. The U.S. Geothermal property is comprised of four separate purchases that total 1743.93 acres: Vulcan's interest in the Raft River project; the Elena interest; the Dewsnap interest; and the Wilcock interest. The Vulcan interest includes both surface and geothermal rights and consists of two parcels. The first parcel has a total area of approximately 240 acres, and three geothermal wells (RRGE-1, RRG-4 and RRG-5) are located on this parcel. The second parcel has a total area of approximately 320 acres, and three additional geothermal wells (RRGE-3, RRG-6 and RRG-7) are located on this parcel. A fourth well, RRGE-2, although located on the property covered by the Crank lease, was acquired by the company as part of its purchase of the Vulcan interest.



The Elena interest is comprised of surface and geothermal rights to approximately 100 acres of property, excluding the oil and gas rights to the property. The Elena interest is contiguous to other interests owned or leased by the company.

The Dewsnap interest is comprised of the surface rights to approximately 123.93 acres of property, excluding the oil and gas rights to the property, but including all water and water rights. The Dewsnap interest is contiguous to other properties owned or leased by us. The geothermal rights to these acres are included in the Crank lease.

The Wilcock interest is comprised of the surface and oil and gas rights to approximately 960 acres of property, including irrigation water rights for 1,544 acre-feet of water. The Wilcock interest is contiguous to other properties owned or leased by U.S. Geothermal.

HISTORY

U.S. Geothermal has gone through a few incarnations. U.S. Geothermal Inc. was originally incorporated in the province of British Columbia, Canada, under the name Mango Resources Ltd. on September 14, 1987, and traded on the Vancouver Stock Exchange under the symbol MRH. On October 7, 1999, the company changed its name from Mango Resources to Consolidated Mango Resources Ltd. On March 13, 2000, the company began trading on the TSX Venture Exchange, the successor to the Vancouver Stock Exchange, under the name U.S. Cobalt Inc. Trading was halted on April 3, 2002, in accordance with TSX Venture Exchange policy, until the merger was completed forming U.S. Geothermal, which again began trading on the TSX Venture Exchange under our current symbol GTH.

Historically, Mango Resources, Consolidated Mango Resources and U.S. Cobalt operated in the resources sector and held interests in various mining properties. Mango conducted initial mineral exploration for nickel and zinc in four mineral claims situated in Voisey Bay, Labrador, Canada. Exploration activities in Voisey Bay were unproductive and concluded by the end of 1996, with the mineral claims written off in 1997. Additionally, Mango acquired interests in two gold properties in South East Asia: a property in Kalimantan, Indonesia, in 1996 and a property on the island of Java, Indonesia, in 1997. Neither property yielded significant gold deposits and due to the adverse gold market during the period, gold exploration activities were also concluded, with activities on the Kalimantan property terminated in 1998 and the Java gold property agreement terminated in July 1999. At that point, Mango had no significant assets and became inactive.

In 2002, the company refocused its business efforts on renewable energy projects. U.S. Geothermal (which the company refers to as Geo-Idaho to differentiate it from itself) was formed in February 2002 to conduct geothermal resource development. On December 3, 2002, Geo-Idaho entered into an agreement with Vulcan Power Company to acquire from Vulcan all of the real property, personal property and permits that comprised Vulcan's interest in the Raft River project. The agreement with Vulcan provided for the acquisition of 100% of Vulcan's interest in the Raft River project in consideration for shares and warrants of Geo-Idaho and cash payments to Vulcan of up to \$600,000. Geo-Idaho also agreed that, as a condition to completing the purchase, it would work to advance the Raft River project by expending at least \$200,000 for a work program. By August 1, 2005, Geo-Idaho had paid Vulcan \$617,000 in securities and cash payments, and had completed the work program, bringing its percentage ownership of Vulcan's interest in the Raft River project to 100%.

In December 2003, as part of a merger agreement, GTH acquired Geo-Idaho through the merger of Geo-Idaho with a wholly-owned subsidiary, EverGreen Power Inc., an Idaho corporation formed for that purpose. Geo-Idaho is the surviving corporation and the subsidiary through which GTH conducts operations. As part of this acquisition, the company changed its name to U.S. Geothermal, and the former Geo-Idaho shareholders became the majority holders.

On May 24, 2006, the company formed US Geothermal Services, LLC, to participate in the operation of phase 1 of the Raft River project, and on August 18, 2005, it formed Raft River Energy I LLC, to facilitate the financing of phase 1 of the project. On August 9, 2006, Raft River I Holdings, LLC, an affiliate of The Goldman Sachs Group, became a member of Raft River Energy I LLC.

On September 5, 2006, the company leased property for a second geothermal project at Neal Hot Springs in eastern Oregon near the Idaho border. The new property, 8.5 square miles of geothermal energy and surface rights, was acquired from a private party. The property has an identified geothermal resource.

MANAGEMENT

Daniel J. Kunz, 54, is President and Chief Executive Officer and a director and the President of Geo-Idaho. He has served as a director since March 2000, and was Chairman of the Board of Directors from March 2000 until December 2003. Prior to the acquisition of Geo-Idaho, he served as a director and the President for that company from February 2002 until the acquisition. Kunz was an executive of Ivanhoe Mines Ltd. from 1997, and served as its President and CEO from November 1, 2000 until March 1, 2003. From March 2, 2003 until March 8, 2004, he served as Interim President of Jinshan Gold Mines Inc. Kunz has more than 29 years of experience in international mining, engineering and construction. He has held top executive positions at MK Gold Company and Morrison Knudsen Corporation. Kunz holds a MBA and a BS in Engineering Science. He is currently a director of several public companies traded on the TSX Venture Exchange, including Jinshan Gold Mines, Triumph Gold Corp., and Chesapeake Gold Corp.

Douglas J. Glaspey, 54, is Chief Operating Officer and a director. He has served as a director since March 2000, and served as its President from March 2000 until the acquisition of Geo-Idaho. He also served as a director and CEO of Geo-Idaho from February 2002 until the acquisition, and continues to serve as President. From December 1986 to the present, Glaspey has been a metallurgical engineer and project manager with Twin Gold Corporation. He has 28 years of operating and management experience. He holds a BS in Mineral Processing Engineering and an Associate of Science in Engineering Science. His background includes production management, planning and directing resource exploration programs, preparing feasibility studies and environmental permitting. He has formed and served as an executive officer of several private resource development companies in the U.S., including Drumlummon Gold Mines Corporation and Black Diamond Corporation.

Kerry D. Hawkey, 53, is Chief Financial Officer. Hawkey has served as controller since July 2003, and became CFO as of January 1, 2005. Since July 2003, he has also provided consulting services to Triumph Gold Corp. From 1998 to 2003, Hawkey served as controller, director and treasurer of LB Industries. He has over 29 years experience in all areas of accounting, finance and administration. He holds a BA degree in Accounting and Finance. He started his career as an internal auditor with Union Pacific Corporation and has held various accounting management positions in the oil and gas, truck leasing, mining and energy industries.

COMPETITION

In the Pacific Northwest there are currently no operating geothermal facilities. There exist a number of wind farms as well as biomass and run-of-the-river hydroelectric facilities. U.S. Geothermal believes that the combination of greater reliability and baseload generation from geothermal and access to infrastructure for deliverability, will allow it to compete successfully for long-term power purchase agreements.

RISKS

Although U.S. Geothermal claims to have proven reserves, as well as the capability of producing sustainable power, the company's true potential will only be proven when its plant comes online and sustainable profits start rolling in.

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