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THERMAL
EXPLORATION
COMPANY

1990
ANNUAL REPORT

THERMAL EXPLORATION COMPANY

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Directors: Hugh M. Blair
F. Dale Corman
James E. Lanigan
James V. Martin

Officers: F. Dale Corman
President & Chief Executive Officer

James E. Lanigan
Secretary-Treasurer

Stock Exchange Listings: NASDAQ, Washington
Trading Symbol: "TECC"

Alberta Stock Exchange, Calgary
Trading Symbol: "THR"

Transfer Agents and Registrars: Continental Stock Transfer & Trust
Company, New York
Telephone: (212) 406-2740

Central Guaranty Trust Co., Calgary
Telephone: (403) 292-1060

Auditors: Deloitte & Touche,
Sacramento, California

Bankers: Bank of America
Bank of Montreal
Royal Bank of Canada

PRESIDENT'S REPORT

TO THE SHAREHOLDERS:

1990 represented a year of considerable activity for the Company. Positive results were achieved in the three areas of the Company's operations; geothermal production, natural gas exploration and mineral exploration.

Management is particularly pleased with the progress that has been made in the evaluation of the Williams Creek Copper Deposit near Whitehorse in the Yukon Territory of Canada. Metallurgical test work by Bacon, Donaldson & Associates Ltd., and an Economic Evaluation by Wright Engineers Limited, have confirmed the suitability of this deposit as a potential low cost, open pit heap leach copper producer. Recent diamond drilling has also confirmed the presence of a near surface high grade zone within the deposit that, when further defined, may ensure the economic viability of the deposit. Further definition diamond drilling and metallurgical test work will be one of the Company's principal objectives in 1991.

The Company also participated in the drilling of a potentially productive gas well in central Alberta, Canada. Preliminary tests indicate overall reserves of approximately four billion cubic feet of natural gas under lands in which the Company has a 25% interest. It is the Company's intent to sell this interest in order to increase working capital.

On June 19, 1990 the Company entered into a non-binding letter of intent with AMAX Exploration Inc. to acquire Steam Reserve Corporation (SRC), a company which holds a 16.5% interest in the Roosevelt Geothermal Field. Negotiations have been temporarily suspended pending the sale of Chevron Resources' 69.5% interest in Roosevelt to California Energy Company (CEC). Discussions are currently being held between CEC and PacifiCorp (the owner of Utah Power & Light) whereby PacifiCorp will make a cash payment for the steam required to run the 21.4 megawatt Blundell power plant for the next 30 years. It is understood that the offer will also be extended to the other participants, which include SRC and our Company. Regardless of the outcome of these negotiations, the Company plans to continue its efforts to acquire SRC as management believes that geothermal power generation, and Roosevelt in particular, will become an important renewable source of clean electrical energy in the future.

1991 promises to be a year of achievement, and management is looking forward to the challenge of building the Company into an integrated natural resources entity.

On behalf of the Board



F. Dale Corman,
President

OPERATIONS SUMMARY

GEOHERMAL PROPERTIES

ROOSEVELT HOT SPRINGS

The Roosevelt Hot Springs geothermal field is located in southwestern Utah, 12 miles northeast of the town of Milford in Beaver County. The field is contained within a 46.7 square mile Federally-designated geothermal resource area. A Participating Area covering what is considered to be the economic limits of the reservoir was formed in 1981. Land held by the Company entitles it to a 7.5% working interest in the Participating Area. In addition to the direct working interest, a 0.21% overriding royalty is also received on gross revenues from the Participating Area.

The Company considers the Roosevelt reservoir to be the best hot water geothermal resource discovered in the United States to date. The geothermal fluids have a temperature in the range of 515 degrees Fahrenheit, with total dissolved solids of less than 1%. The reservoir is highly fractured which allows for high flow rates from shallow depths, thus requiring fewer production wells than most reservoirs of this type. Deep penetrating geophysical surveys conducted by the United States Geologic Survey indicate the possible presence of a magma heat source, which, if correct, will ensure thermal longevity for the project.

Pressure and temperature monitoring of the reservoir has been continuous since start-up in 1984. Sufficient data has now been obtained to predict the production capacity of the reservoir to be sufficient to generate in excess of 100 megawatts of electricity for a period of not less than 35 years from the installation of these facilities. The ultimate potential may be several times this amount, although a longer period of production will be required to make this determination.

In 1984, Utah Power & Light Company (UP&L) completed the construction of the 21.4 megawatt Blundell geothermal power plant at Roosevelt. The Company participated as to 7.5% of the field development costs, which included the drilling of geothermal wells and related facilities. These funds were provided by AMAX Exploration Inc. and Thermal Power Company under an agreement entered into in 1979 with the Company's predecessor, O'Brien Resources Corporation. Thermal Power's interest was subsequently purchased by AMAX, which then transferred all of its geothermal assets to a wholly owned subsidiary, Steam Reserve Corporation (SRC). The 1979 funding obligation, which is now the responsibility of AMAX and SRC, remains in effect until approximately 220 megawatts of power generation have been developed.

The Company has also entered into a non-binding letter of intent with AMAX to acquire SRC, which holds a 16.5% interest in Roosevelt. Recent developments, which include the pending purchase of Chevron Resources' 69.35% interest in Roosevelt by California Energy Corporation (CEC) and formal discussions between Chevron, PacifiCorp (UP&L) and CEC have complicated negotiations. As a result, the acquisition discussions have been temporarily suspended pending the outcome of the purchase and negotiations.

FISH LAKE PROJECT

As a result of a successful exploration program conducted by the Company and funded by SRC, the Company received a 2.5% royalty interest in steam sales to the first 15 megawatts of power generation facilities to be built at Fish Lake. The Company's interest is convertible, at its option, to a 10% working interest in all subsequent production at the site. The property is located in Nevada, approximately 10 miles east of the California border and approximately 40 miles northeast of Bishop, California. SRC and two limited partnerships drilled two geothermal test wells which resulted in the discovery of a geothermal reservoir having a temperature in the range of 400 degrees Fahrenheit. The two limited partnerships have acquired SRC's interest in the project and are now in the process of negotiating a power sales agreement with Southern California Edison.

ALUM PROSPECT

The Alum prospect is located approximately 10 miles east of Fish Lake, and was located by the Company under the same exploration agreement that led to the discovery of Fish Lake. The project is wholly-owned by SRC and is subject to the same royalty and conversion obligations to the Company as exist at Fish Lake. Deep drilling is required at Alum to determine the economic potential of the prospect. -

NATURAL GAS INTERESTS

The Company has acquired a 25% interest in over 5,760 acres of natural gas leases and licences in central Alberta. The selection of this acreage resulted from a geologic study and the shooting and processing of approximately 560 miles of seismic data. It also participated in the drilling of four natural gas wells in the Calling Lake Area, which is located approximately 105 miles northeast of the city of Edmonton. One of these wells, in which the Company has a 25% interest, had significant natural gas flows. Two successful drill stem tests over two separate gas bearing sand zones yielded flow rates of 2.1 MMcf/Day and 2.25 MMcf/Day respectively. The pay thicknesses of the two sand zones were 7 feet and 15 feet respectively. Preliminary estimates indicate that the natural gas contained within the boundary of the Company's acreage is approximately four billion cubic feet. A production flow test will be required to confirm this estimate. A purchaser is being sought for its interest in the gas well and Calling Lake seismic data. The resulting cash from this sale, if concluded, will be re-deployed in natural gas exploration in areas where the Company has a greater interest, or for further diamond drilling of the Williams Creek Copper Prospect. The level of activity will for the most part, depend on the availability of funds.

MINERAL PROPERTIES

WILLIAMS CREEK COPPER/GOLD PROJECT

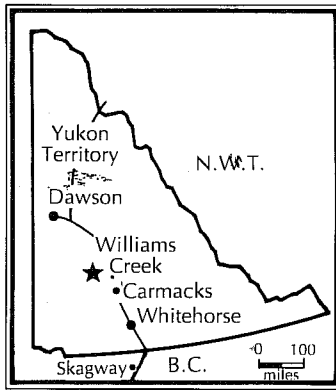
The Company and Western Copper Holdings Limited (an associated company of Teck Corporation, a major mineral producing and holding company) entered into an option agreement to acquire a 100% interest in the Williams Creek Copper property, located approximately 140 miles west and north of Whitehorse, in the Yukon Territory of Canada. The option was acquired from Archer, Cathro Associates (1981) Limited, which will retain either a 2.5% net profits interest up to \$2.5 million (Cdn) or a 15% net profits interest.

The Company and Western Copper have jointly incurred approximately \$110,000 (Cdn) in expenditures to acquire the option, and to perform certain preparatory work (including metallurgical and engineering studies). The agreement with Western Copper requires the Company to spend the next \$640,000 (Cdn), at which time it will own 100%. Western Copper will then have the right to earn a 50% interest in the property by spending \$960,000 (Cdn). The Company has, in addition to the \$55,000 (Cdn) expenditure outlined above, spent \$100,000 (Cdn) on the construction of an all-weather road to the property and the drilling of three diamond drill holes. The drilling was done to confirm the presence of a high grade zone within the deposit, demonstrate structural continuity and provide fresh test samples for further metallurgical analysis. Based on the results of the three holes, which were better than anticipated, the Company intends to proceed with further in-fill definition drilling and further metallurgical testing when weather permits in 1991.

Metallurgical test work by Bacon, Donaldson and Associates Ltd. indicates that 85% of the copper is extractable by heap leaching with dilute solutions of sulfuric acid. Economic analyses by Wright Engineers Limited and Western Copper indicate that the property can be open pit mined, heap leached and cathode copper produced by solvent extraction and electrowinning, at an operating cost per pound of \$0.45 to \$0.62 (Cdn). Capital Costs for the project have been estimated at \$30 to \$40 million (Cdn).

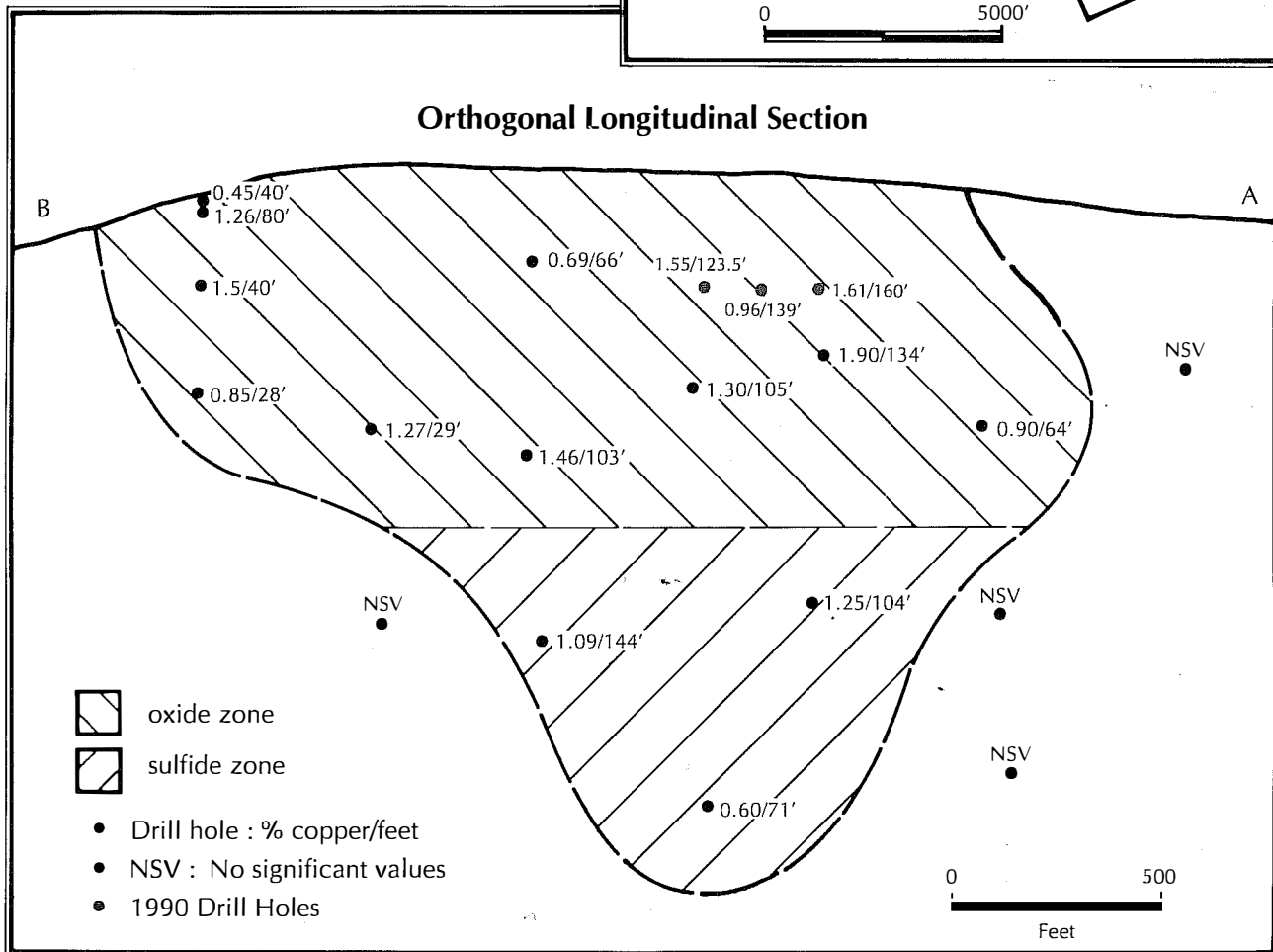
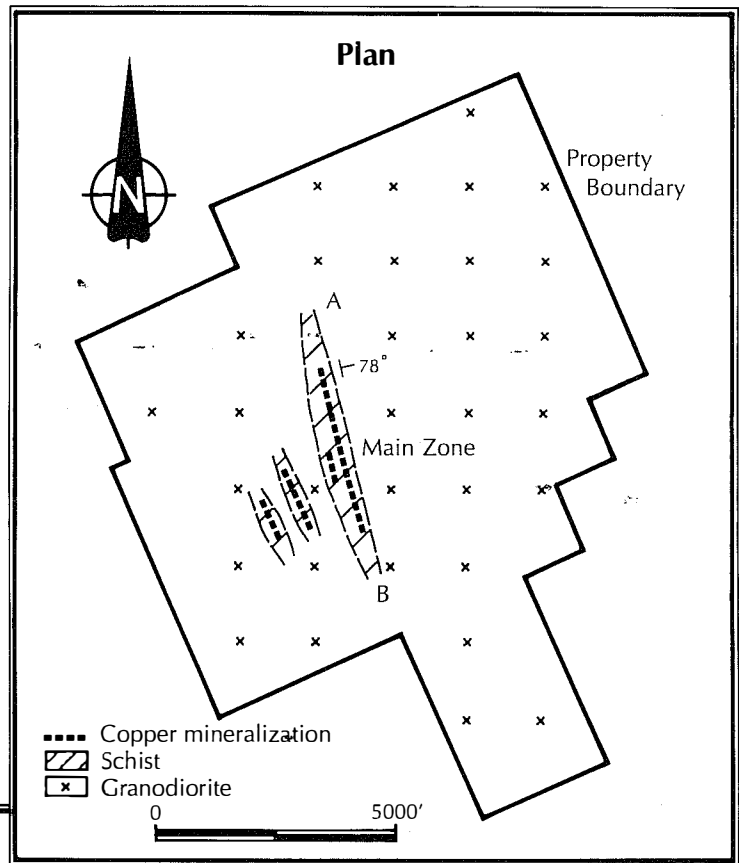
Ore reserves have been calculated, from diamond drill hole intersections and surface samples, to be 16.3 million tons grading, on average, 1.15% copper. Eight million tons of these reserves grading 1.12 copper as copper oxide can be processed by low cost open pit heap leach technology.

Each reserve block is calculated around a single trench assay or a single drill hole assay. The sphere of influence of each hole is assumed to be half the distance to adjoining holes or surface, or 200 feet where there is no adjoining hole. Diamond drill holes are approximately 400 feet apart, with the exception of the three holes recently drilled which are approximately 150 feet apart. It is important to note that these three holes have yet to be factored into the reserve. They are, however, expected to have a positive effect on the overall grade of the oxide reserves.



WILLIAMS CREEK PROPERTY

Located 22 miles by road northwest of Carmacks, Yukon Territory, the Williams Creek copper deposit has oxide reserves of 10 million tons grading 1% copper and sulfide reserves of 7 million tons grading 1.1% copper.



THERMAL EXPLORATION COMPANY

AREAS OF ACTIVITY



FINANCIAL SUMMARY AND REVIEW

During the year the Company realized \$382,538 in gross revenue from its 7.5% share of steam sales to Utah Power & Light compared to \$439,012 in 1989. The principal reason for the decrease in revenue was a longer shutdown of the power plant for inspection and maintenance.

The Company is obligated to repay cash and cost advances and interest on those advances to SRC from revenue received from its share of geothermal revenue. As of June 30th, 1990 total outstanding advances amounted to \$1,537,885 and total accrued interest on advances amounted to \$669,729, for a total debt to SRC of \$2,207,614. The repayment of these cash advances and interest is from 75% of the gross proceeds received from the sale of steam at Roosevelt. The obligation to repay these sums is related only to revenue received from steam sales. The obligation to continue to advance funds to the Company for capital and operating costs at Roosevelt continues until the equivalent of 220 megawatts of electrical power generation is installed or the reservoir is fully developed.

In addition to its geothermal revenue, the Company had proceeds of \$128,104 from usage fees for seismic data and anticipates additional fees in 1991. An additional \$248,000 was also realized from the sale of proprietary rights to half of the Calling Lake seismic data.

During the year the Company participated in the shooting of the Smoky Lake and Cecil seismic surveys at a cost of \$765,421 and the drilling of four gas wells at a cost of \$120,582.

EQUITY ISSUE

In July of 1989 the Company sold to NIM and Company, Limited Partnership-1989 687,500 common shares by private placement for a total consideration of \$1,100,000 (Cdn). These funds were used primarily for seismic surveys, exploratory drilling and exploration costs at the Williams Creek copper deposit.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held in the law offices of Bartel Eng & Torngren, 300 Capitol Mall, Suite 1100, Sacramento, CA 95814, at 10:00 AM on January 31, 1991.

FORM 10-K

A copy of Thermal Exploration Company's Form 10-K Annual Report, filed with the Securities and Exchange Commission, is available upon request.



INDEPENDENT AUDITORS' REPORT

Board of Directors
Thermal Exploration Company:

We have audited the accompanying balance sheets of Thermal Exploration Company (Company) as of June 30, 1990 and 1989, and the related statements of operations and stockholders' equity for the years ended June 30, 1990, 1989, and 1988, cash flows for the years ended June 30, 1990 and 1989 and changes in financial position for the year ended June 30, 1988. Our audit also comprehended the supplemental schedules listed in the accompanying Index at Item 14.A.2. These financial statements and supplemental schedules 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Thermal Exploration Company as of June 30, 1990 and 1989, the results of its operations for the years ended June 30, 1990, 1989, and 1988, its cash flows for the years ended June 30, 1990 and 1989 and the changes in its financial position for the year ended June 30, 1988, in conformity with generally accepted accounting principles. Also, in our opinion, such supplemental schedules, when read in conjunction with the related financial statements, present fairly in all material respects the information set forth therein.

At June 30, 1990 and 1989, the Company had capitalized seismic costs of \$805,262 and \$413,712 representing the Company's share of costs of seismic studies. It is management's intent to use the seismic data in its efforts to bid on, and acquire, oil and gas leases. Should the Company be unable to obtain leases, or if leases are obtained and there are no proven reserves, the related seismic costs will be written down in the period such determination is made. If leases are obtained and proven reserves are discovered, the related seismic costs will be amortized using the units of production method. See Note E to the financial statements.

Based on the Company's interpretation of certain tests, the Company believes that an exploratory well in which it has a 25% interest contains gas reserves. It is the Company's intent to sell its interest in the well before the start of production. The Company has estimated the sales value to be \$197,668 and has capitalized related well costs up to that amount. The price eventually realized may differ from this estimate. See Note F to the financial statements.

At June 30, 1990, the Company had capitalized \$59,539 in costs representing its interest in a copper mining joint venture. The Company has an option to fund \$544,512 in exploration expenditures by April 1, 1991. Failure to exercise this option will result in forfeiture of the Company's interest in the joint venture. See Note D to the financial statements.

As discussed in Note B to the financial statements, the Company has presented a statement of cash flows for the year ended June 30, 1990 and 1989 and a statement of changes in financial position for the year ended June 30, 1988.

Deloitte + Touche

September 4, 1990

THERMAL EXPLORATION COMPANY

BALANCE SHEETS

ASSETS

	<u>June 30</u>	
	<u>1990</u>	<u>1989</u>
CURRENT ASSETS:		
Cash (including certificates of deposit of \$149,167 in 1990)	\$ 165,606	\$ 77,055
Receivables:		
Trade	153,822	154,766
Other	<u>4,638</u>	<u>1,006</u>
	158,460	155,772
TOTAL CURRENT ASSETS	324,066	232,827
LAND HELD FOR SALE	40,007	40,007
OIL AND GAS INTERESTS HELD FOR SALE	197,668	
INVESTMENT IN JOINT VENTURE	59,539	32,187
SEISMIC COSTS	805,262	413,712
GEOHERMAL DEVELOPMENT COSTS AND EQUIPMENT:		
Development costs	2,442,402	2,511,348
Furniture and equipment	<u>52,070</u>	<u>51,957</u>
TOTAL GEOHERMAL DEVELOPMENT COSTS AND EQUIPMENT	2,494,472	2,563,305
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION	<u>504,119</u>	<u>439,406</u>
	1,990,353	2,123,899
INVESTMENTS AND OTHER ASSETS	<u>44,084</u>	<u>45,527</u>
	<u>\$3,460,979</u>	<u>\$2,888,159</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>June 30</u>	
	<u>1990</u>	<u>1989</u>
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 141,448	\$ 95,911
Payable to former officer	26,767	22,683
Current portion of advance from operating partner	<u>56,420</u>	<u>62,957</u>
TOTAL CURRENT LIABILITIES	224,635	181,551
ADVANCE FROM OPERATING PARTNER	2,151,194	2,096,402
STOCKHOLDERS' EQUITY:		
Convertible Series A preferred stock, 5,000,000 shares authorized; 155,000 shares issued and outstanding; \$3.00 stated value and liquidation preference	465,000	465,000
Common stock, 25,000,000 shares authorized, no par; 11,136,461 and 10,448,961 issued and outstanding	5,433,306	4,498,306
Accumulated deficit	<u>(4,813,156)</u>	<u>(4,813,156)</u>
	<u>1,085,150</u>	<u>610,206</u>
	<u>\$ 3,460,979</u>	<u>\$ 2,888,159</u>

See notes to financial statements.

THERMAL EXPLORATION COMPANY

STATEMENTS OF OPERATIONS

	<u>Years ended June 30</u>		
	<u>1990</u>	<u>1989</u>	<u>1988</u>
REVENUE:			
Geothermal production	\$ 382,538	\$ 439,012	\$ 313,386
Royalty	5,861	7,428	5,466
Gain on sale of interest in seismic asset	<u>73,114</u>	<u> </u>	<u> </u>
	461,513	446,440	318,852
COSTS AND EXPENSES:			
Operating	212,556	175,341	165,876
General and administrative	281,753	168,806	137,536
Exploration costs (oil and gas)	182,704		
Write-off of geothermal development costs	58,033		
Write-off of investment in joint venture	<u>32,187</u>	<u>21,458</u>	<u> </u>
	<u>767,233</u>	<u>365,605</u>	<u>303,412</u>
OPERATING (LOSS) INCOME	(305,720)	80,835	15,440
OTHER INCOME:			
Interest	33,679	907	366
Gain on sale of marketable securities			23,057
Other	<u>64,148</u>	<u>25,799</u>	<u>21,896</u>
	97,827	26,706	45,319
OTHER EXPENSE:			
Legal settlement			281,232
Interest	202,273	180,228	148,119
Unrealized loss on marketable securities		8,500	
Other	<u>11,865</u>	<u>11,355</u>	<u>20,061</u>
	<u>214,138</u>	<u>200,083</u>	<u>449,412</u>
LOSS BEFORE INCOME TAXES	(422,031)	(92,542)	(388,653)
PROVISION FOR INCOME TAXES	<u>38,025</u>	<u>5,320</u>	<u>400</u>
NET LOSS	<u>\$ (460,056)</u>	<u>\$ (97,862)</u>	<u>\$ (389,053)</u>
LOSS PER COMMON SHARE	<u>\$ (.04)</u>	<u>\$ (.01)</u>	<u>\$ (.05)</u>

See notes to financial statements.

THERMAL EXPLORATION COMPANY

STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended June 30, 1990, 1989, and 1988

	<u>Convertible Series A Preferred Stock</u>		<u>Common Stock</u>		<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Deficit</u>	
Balance, July 1, 1987	1,427,303	\$ 4,281,909	8,273,407	\$ 113,567	\$(3,866,185)	\$ 529,291
Net loss					(389,053)	(389,053)
Balance, June 30, 1988	1,427,303	4,281,909	8,273,407	113,567	(4,255,238)	140,238
Net loss					(97,862)	(97,862)
Sale of common shares			903,251	567,830		567,830
Conversion of preferred shares	(1,272,303)	(3,816,909)	1,272,303	3,816,909		
Balance, June 30, 1989	155,000	465,000	10,448,961	4,498,306	(4,353,100)	610,206
Net loss					(460,056)	(460,056)
Sale of common shares			687,500	935,000		935,000
Balance, June 30, 1990	<u>155,000</u>	<u>\$ 465,000</u>	<u>11,136,461</u>	<u>\$5,433,306</u>	<u>\$(4,813,156)</u>	<u>\$1,085,150</u>

See notes to financial statements.

THERMAL EXPLORATION COMPANY

STATEMENTS OF CASH FLOWS

	Years ended June 30	
	1990	1989
Cash flows from operating activities:		
Net loss	\$(460,056)	\$(97,862)
Adjustments to reconcile to net cash provided (used) by operating activities:		
Amortization and depreciation	91,559	91,887
Gain on sale of interest in seismic asset	(73,114)	
Write-off of geothermal development costs	58,033	
Write-off of investment in joint venture	32,187	21,458
Gain on sale of furniture and equipment	(379)	
Unrealized loss on investment in common stock		8,500
(Increase) decrease in receivables	(2,688)	8,029
Decrease in advance from joint venture		(6,466)
Increase (decrease) in accounts payable and accrued expenses	45,537	(14,278)
Increase in payable to former officer	4,084	3,733
Net cash provided (used) by operating activities	(304,837)	15,001
Cash flows from investing activities:		
Oil and gas interests held for sale	(127,668)	
Investment in joint venture	(59,539)	(53,645)
Seismic costs	(771,528)	(507,856)
Seismic data usage fees received	128,104	94,144
Proceeds from sale of interest in seismic asset	248,893	
Proceeds from sale of lease interest	6,107	
Purchases of furniture and equipment	(15,236)	
Proceeds from sale of furniture and equipment	1,000	
Net cash (used) by investing activities	(589,867)	(467,357)
Cash flows from financing activities:		
Proceeds from sale of common stock	935,000	567,830
Advances from operating partner	231,368	129,452
Payments of operating advances	(183,113)	(183,055)
Net cash provided by financing activities	983,255	514,227
Net increase in cash	88,551	61,871
Cash at beginning of year	77,055	15,184
Cash at end of year	\$ 165,606	\$ 77,055

See notes to financial statements.

THERMAL EXPLORATION COMPANY

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended <u>June 30, 1988</u>
Uses of cash:	
Operations:	
Net loss	\$389,053
Noncash charges:	
Depreciation and amortization	<u>(91,515)</u>
	297,538
Decrease in current portion of advance from operating partner	71,026
Decrease in accounts payables	<u>30,966</u>
TOTAL USES OF CASH	<u>399,530</u>
Sources of cash:	
Decrease in receivables	37,904
Decrease in noncurrent receivables	286,472
Increase in payable to former officer	1,506
Increase in advance from operating partner	<u>53,543</u>
TOTAL SOURCES OF CASH	<u>379,425</u>
Decrease in cash	(20,105)
Cash at beginning of year	<u>35,289</u>
Cash at end of year	<u>\$ 15,184</u>

See notes to financial statements.

THERMAL EXPLORATION COMPANY

NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 1990, 1989, and 1988

A. General Information

Business

Thermal Exploration Company (TEC, or the Company) is engaged in exploration for, and development of, geothermal energy resources, oil and gas, and other extractive resources.

The Company has no full-time employees. The Company's president works on a consulting basis (Note L). Other services required by the Company are contracted for as necessary.

Roosevelt Project

The Company has pooled its interest in Utah geothermal leases (leased lands), known as the Roosevelt Hot Springs Project, with interests held by Steam Reserves Corporation (SRC) (a wholly-owned subsidiary of AMAX Exploration, Inc.). Collectively, these companies are referred to as the ATO Group, for which SRC serves as the unit operator.

Chevron Resources has a 69% interest in the revenues and costs of the Roosevelt project. The Company's interest is 7.49022%. Additionally, the Company has a .21% gross overriding royalty interest in Roosevelt production.

During July 1984, production of geothermal energy began and sales of power to Utah Power & Light Company (UP&L) commenced pursuant to marketing agreements providing for the sale of all of the unit's production to UP&L for 35 years. With the commencement of production, the ATO Group became liable to the State of Utah for a 10% gross overriding royalty on revenues.

Under the 1979 ATO Group joint operating agreement, cost advances were made by SRC to TEC for TEC's share of expenditures. Cost advances will continue until (a) the total generating capacity of power plants served solely by production from the participating area or areas (which include all or part of the leased lands and which have commenced generating operations) when multiplied by the percentage of production from such participating area or areas being allocated to the leased lands, equals at least 55 megawatts, (b) TEC is able to secure non-recourse financing comparable to or more favorable than that offered by SRC, or (c) the geothermal reservoir is fully developed.

All of the Company's geothermal production revenues for the periods ended June 30, 1990, 1989, and 1988, were from UP&L.

The Company has received an offer from Amax International Inc. to purchase SRC's interests in the Roosevelt Hot Springs Project. The Company has retained an investment advisor to explore its options.

B. Summary of Significant Accounting Policies

Geothermal Development Costs

Geothermal development costs are recorded at cost and are depreciated by the straight-line method over an estimated useful life of 30 years.

Costs incurred during the exploration phase of a project are expensed. Upon locating a proven reserve that can be put into production, direct costs incurred to develop the project are capitalized and upon production are amortized over the estimated productive life of the reserve. Costs of maintaining the project once production begins are expensed. Maintenance costs were \$128,676, \$85,075 and \$69,695 for the years ended June 30, 1990, 1989 and 1988.

Furniture and Equipment

Furniture and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Oil and Gas Accounting

The Company uses the full cost method to account for all costs incurred in the exploration, acquisition and development of oil and gas properties. Such costs include geological interpretation, lease acquisition, and drilling expenditures. Under the full cost method, these costs are initially capitalized until a determination of the productivity of the property is made. When a property is determined to have proven reserves, the associated costs, including costs of development, are amortized using the units of production method. Should a property be determined to be nonproductive, the related costs are written off in the period the determination is made. The costs for unproved oil and gas properties are assessed at least annually and any impairment recognized at that time.

Seismic Costs

Costs incurred by the Company for seismic studies relating to oil and gas exploration have been capitalized net of any fees charged to others for use of related seismic data (usage fees). If TEC is unable to obtain leases for the properties for which

the seismic studies were performed, or if leases are obtained and there are no proven reserves, the related seismic costs will be written down to the value of estimated future usage fees. If leases are obtained and sufficient proven reserves are discovered, the costs will be amortized using the units of production method. See Note E.

Exploration Costs

Under the full cost method exploration costs, including the costs of geological interpretation, acquiring leases and drilling exploratory wells, are capitalized up to the net present value (using current costs and a 10% discount rate) of proven reserves. Costs in excess of that amount are expensed. During the year ended June 30, 1990 the Company had no proven reserves and has written off its costs associated with oil and gas exploration, except for seismic costs as discussed in Note E and for oil and gas interests held for sale as discussed in Note F.

Loss Per Common Share

Loss per common share is based on the weighted average number of common shares outstanding during each period. Common stock equivalents (convertible preferred stock) have been excluded from the computation of primary earnings per share as their effect is antidilutive. Supplemental loss per share, which shows the effect on primary loss per share of conversions and issuances of stock as if they had occurred at the beginning of the year, is not shown as it is not materially different from primary loss per share.

Statement of Cash Flows

The accompanying financial statements include statements of cash flows for the years ended June 30, 1990 and 1989, as required by Statement of Financial Accounting Standards No. 95. The 1988 financial statements include a statement of changes in financial position, which was required prior to the adoption of Statement No. 95.

For the purposes of the statement of cash flows, the Company defines cash and cash equivalents as cash, and all highly liquid investments with an original maturity of three months or less. During the years ended June 30, 1990 and 1989, the Company made interest payments of \$176,576 and \$112,435 and income tax payments of \$600 and \$300.

Reclassifications

The presentation of certain prior year balances have been conformed with current year classifications.

C. Land Held for Sale

The Company has 2,057 acres of land which is carried at cost of \$40,007 and is held for sale at June 30, 1990 and 1989. Based on sales of surrounding properties, it is management's opinion that market value is in excess of cost.

D. Investment in Joint Ventures

Williams Creek Joint Venture.

In September 1989, the Company entered into an agreement with Western Copper Holdings Ltd. (Western), a subsidiary of Teck Corporation, to jointly explore and develop the Williams Creek copper deposit in the Yukon territories of Western Canada. The Company has capitalized \$59,536 in initial testing and engineering studies and has an option to fund an additional \$544,512 in exploration expenditures by April 1, 1991. Western would then be obligated to fund the next \$816,000 in exploration costs. Failure by either the Company or Western to fund their share of the costs will result in the forfeiture of any interest in the property to the other party.

The Company intends to seek financing to fund its expenditures by April, 1991; such financing has not currently been secured.

Truax/Chavin

In January 1989, TEC acquired a 20% interest in an oil and gas exploration joint venture. During fiscal 1990 it was determined that the properties held by the joint venture did not have proven reserves. As a result, the Company's investment in the joint venture has been written off.

E. Seismic Costs

The Company is a participant in several operating agreements or joint ventures whose purpose is to perform seismic studies with the intent of leasing and developing oil and gas properties. These activities are summarized below:

Calling Lake

On January 2, 1989, the Company entered into a joint venture with Karon Resources, Inc. (a related company) ("Karon"), Kinghorn Resources Ltd and Golden Eagle. The purpose of this joint venture is to perform seismic studies and to acquire and develop oil and gas properties in the Calling Lakes area of Alberta, Canada. Under the agreement, TEC has the right to acquire a 50% participation interest in any property acquired by the joint venture. TEC also originally had a 37.5% interest in any fees charged for use of seismic data until its costs are recovered and 50% of usage fees thereafter. During the year ended June 30, 1990, the Company sold one-half its interest in the usage fees, resulting in a gain of \$73,114, and reducing its interest in future usage fees to 18.75% prior to cost recovery and 25% after cost recovery.

Cecil Lake

On July 17, 1989, the Company entered into a joint venture with Karon and Scenic Investments, Inc., both related parties, for the purpose of performing seismic studies and acquiring and developing oil and gas properties in the Cecil Area of Alberta, Canada. Under the agreement, the Company acquired a 20% interest in the seismic data usage fees from a seismic program conducted by Karon in the Cecil area. In June 1990, the Company's interest in the joint venture was modified. The Company will receive 8% of the future fees from the use of seismic data and has the right to acquire an 8% participating interest in any properties acquired by the joint venture.

Smokey Lake

On July 20, 1989, the Company and Karon entered into a joint venture for the purpose of performing seismic studies and acquiring and developing oil and gas properties in the Smokey Lake area of Alberta, Canada. The Company was to receive 37.5% of seismic data usage fees and had the right to acquire a 50% participating interest in any properties acquired by the joint venture. In June 1990 the Company's interest was increased to 75% for future fees from the use of the seismic data and a 100% participating interest in any properties acquired by the joint venture.

Seismic costs were as follows at June 30:

	<u>1990</u>	<u>1989</u>
Calling Lake	\$253,918	\$507,836
Cecil Lake	135,036	
Smokey Lake	630,402	
Less: Cumulative usage fees received	(144,088)	(94,144)
Reclassification of seismic costs (Note F)	<u>(70,000)</u>	<u> </u>
	<u>\$805,262</u>	<u>\$413,712</u>

F. Oil and Gas Interests Held for Sale

During the year ended June 30, 1990, the Company entered into an operating agreement with American Eagle Petroleum, Ripple Resources and Karon to perform exploratory drilling in the Calling Lake Area of Alberta, Canada.

Based on the Company's interpretation of drill stem and well logging tests, the Company believes that one of the exploratory wells contains gas reserves. The Company has a 25% interest in any future production from that well. It is the Company's intent to sell its interest in the well before the start of production.

The costs of seismic, leasehold acquisition, drilling and other exploration costs related to the well have been capitalized up to an estimated sales value of \$197,668. The price eventually realized may differ from this estimate.

G. Write-off of Geothermal Costs

During the year ended June 30, 1990, one of the wells in the Roosevelt Hot Springs Project collapsed. The Company recorded a loss of \$58,033 relating to the collapse. It is the belief of the Company's management that the well will be redrilled, with the partners in the project contributing to the cost in relationship to their interest in the project. The Company expects that the payment of its share of the cost will be financed from operating partner advances in accordance with the terms of the agreement described in Note H.

H. Advance From Operating Partner

In accordance with the ATO Group joint operating agreement, advances are made by SRC to the Company for the Company's share of expenditures. These advances are generally to be repaid solely by returning 75% of gross proceeds received by the Company from the Roosevelt project. However, if TEC's 25% retention of gross proceeds exceeds \$75,000 during any six-month period (January through June, or July through December), 100% of such excess will be used to reduce the balance of the advances and related interest. No such additional reductions have yet been required. The current portion of the principal and interest relating to this advance is equal to 75% of the current receivable from Roosevelt project revenues. Reductions of advances are applied first to interest, then to principal.

Interest expense under this agreement for the years ended June 30, 1990, 1989 and 1988 was \$192,868, \$176,495, and \$148,119.

Advances due to SRC bear interest at the prime rate as published in The Wall Street Journal (10.25% at June 30, 1990). Balances due were as follows:

	<u>June 30</u>	
	<u>1990</u>	<u>1989</u>
Principal	\$1,537,885	\$1,505,922
Interest	<u>669,729</u>	<u>653,437</u>
	2,207,614	2,159,359
Less current portion	<u>56,420</u>	<u>62,957</u>
	<u>\$2,151,194</u>	<u>\$2,096,402</u>

During the years ended June 30, 1990 and 1989, the Company received cash payments of \$105,027 and \$191,581 (net of operating costs and repayment of advances) related to Roosevelt Hot Springs from SRC.

I. Stockholders' Equity

Series A nonvoting preferred stock is convertible into common stock at the election of the holder, at the rate of one share of common stock for each share of preferred stock. No dividend or distribution may be declared or paid on any shares of common stock or Series A preferred stock unless at the same time an equivalent dividend or distribution is declared or paid on all

outstanding shares of common stock and Series A preferred stock. Any dividend on Series A preferred stock shall be payable in an amount equal to the dividends payable on the common stock which the Series A preferred stockholders would be entitled to receive if the preferred stock had been converted into common stock immediately prior to the record date of such dividend. In the event of liquidation, the holders of the preferred stock have a liquidation preference in the amount of \$3.00 per share. In June 1989, 1,272,303 preferred shares were converted into common shares.

During the year ended June 30, 1989, it was discovered that the Company's former parent could not locate a share certificate for 7,281,054 common shares. On December 8, 1989, the Company's shareholders approved a resolution authorizing the Company's transfer agent to replace the lost certificate.

On December 15, 1988, the Company entered into an agreement with NIM and Company, Limited Partnership 1988 (NIM 1988) for the private placement of the Company's common stock. Under the agreement NIM 1988 committed to purchase common shares of TEC on the condition that the Company use the funds to carry out a program of oil and gas exploration in Canada with the expenditures to occur before January 30, 1989. Additionally, the Company was required to renounce any such expenditures to NIM 1988 and to flow through to NIM 1988 any Canadian incentive payments to which the Company would otherwise be entitled. Under Canadian tax law, NIM 1988 received the tax benefits of the Company's oil and gas exploration expenditures in Canada. Prior to the termination of the agreement on January 30, 1989, TEC issued 903,251 shares of common stock to NIM 1988 and received \$567,830 in cash.

On June 29, 1989, the Company entered into an agreement with NIM and Company, Limited Partnership - 1989 (NIM 1989). Under this agreement, NIM 1989 committed to purchase common shares of TEC under conditions similar to those described above. Prior to the termination of the agreement in January 1990, the Company issued 687,500 common shares NIM 1989 and received \$935,000 in cash.

On October 25, 1989, the Company reserved 1,000,000 shares of common stock for issuance under a stock option plan for directors, officers, and employees. Under the plan, options are to be granted and priced as determined by the board of directors. Vesting under the plan occurs immediately upon the granting of the options.

Options to purchase 110,000 of the Company's common stock were granted during the year ended June 30, 1990. Of these, options for 10,000 shares were exercisable at \$.20 per share on or before June 29, 1995, and options for an additional 100,000 shares were exercisable at \$.40 per share on or before January 15, 1995. No options had been exercised as of June 30, 1990.

J. Furniture and Equipment

Furniture and equipment is stated at cost and consists of the following:

	<u>1990</u>	<u>1989</u>
Office furniture	\$20,347	\$27,886
Vehicles	11,648	17,523
Machinery and equipment	<u>20,075</u>	<u>6,548</u>
	52,070	51,957
Accumulated depreciation	<u>(33,792)</u>	<u>(41,878)</u>
Net furniture and equipment	<u>\$18,278</u>	<u>\$10,079</u>

K. Income Taxes

The Company has significant net operating loss carryovers for years prior to July 1, 1988. During the year ended June 30, 1989 there was a significant change in the Company's ownership. Due to the change in ownership, the Company is limited in its ability to apply these net operating losses to future taxable income.

Net operating losses generated subsequent to the date of the change in ownership may be applied against future taxable income without limitation. At June 30, 1990, for income tax purposes, such net operating loss carryovers are as follows:

<u>Expiration Date</u>	<u>U.S. Federal Operating Loss Carryovers</u>	<u>State Operating Loss Carryovers</u>
6/30/05	<u>\$161,303</u>	<u>\$84,126</u>

Loss carryforwards for tax purposes differ from financial statement amounts because, for income tax purposes, exploration costs are capitalized and are subject to amortization, development costs are deducted, and accelerated depreciation methods are used.

As a result of the renouncement of certain exploration expenditures (see Note I), the Company's exploration activities in Canada during the year ended June 30, 1990 resulted in taxable income for Canadian income tax purposes.

The Company's provision for income tax for the years ended June 30, 1990, 1989 and 1988, are composed of the following:

	<u>1990</u>	<u>1989</u>	<u>1988</u>
Canadian income tax on Canadian operations	\$37,325	\$4,916	
California franchise tax	600	300	\$300
Utah franchise tax	<u>100</u>	<u>104</u>	<u>100</u>
	<u>\$38,025</u>	<u>\$5,320</u>	<u>\$400</u>

The Company has not implemented Financial Accounting Standards Board Statement of Financial Accounting Standards Number 96, Accounting for Income Taxes, which is not yet required.

L. Related Party Transactions

TEC's president is retained by the Company on a contract basis. Total consulting fees and payments to the president for geological services for the year ended June 30, 1990, 1989, and 1988, were \$101,045, \$26,760 and \$15,103. At June 30, 1989, \$5,221 was unpaid and included in accounts payable and accrued expenses.

In 1988, the Company and its president entered into a month-to-month agreement under which the Company sublet a portion of its office space to the president for his use in ventures unrelated to the Company. Total rent for the fiscal years ending in 1990, 1989 and 1988, included in other income, was \$500, \$6,000 and \$4,000, respectively. The lease was terminated in August 1989. Beginning in August 1989, the Company rented office space from the president, on a month to month basis. Rental payments for the year ended June 30, 1990 were \$5,500.

During the year ended June 30, 1990, the Company paid one of its shareholder directors \$27,625 for geological services. A company controlled by a minority shareholder was paid \$41,820 to perform interpretation of geophysical data.

The payable to former officer of \$26,767 at June 30, 1990, and \$22,683 at June 30, 1989, reflects amounts due to a former officer under a severance agreement, plus accrued interest.

During the year ended June 30, 1989, the Company recorded \$20,562 general and administrative expense allocated to it by its former parent.

See Notes D and E for discussion of joint venture activities.

M. Settlement of Litigation

In February 1988, litigation with Phillips Petroleum Company was settled at a cost to the Company of \$281,232. The cost of the settlement was charged to operations in the fourth quarter of the year ended June 30, 1988.

N. Subsequent Events

During the month of August 1990, the Company offered to purchase the shares of its stockholders holding less than 100 shares at a price of \$.125 per share. Prior to the offer's termination on September 30, 1990, 617 shares were tendered to the Company.

On September 18, 1990 the Company's Board of Directors approved a resolution to reserve an additional 700,000 common shares of the Company for issuance pursuant to the incentive stock option plan discussed in I.

O. Industry Segments and Geographic Areas

The Company operates in two principal industry segments: geothermal energy, and petroleum and natural gas. Operations in geothermal energy involve the location, extraction, and sale of geothermal fluids. The Company's petroleum and natural gas operations have been limited to exploration activities (primarily seismic surveys) and exploratory drilling. There are no intersegment sales.

Operating income is defined as total revenue less operating expenses. In computing segment operating income, none of the following items have been included: general corporate expenses, interest expense, and income taxes.

Identifiable assets are those assets that are used in the Company's operations in each industry. Corporate assets are principally cash, marketable securities, furniture and equipment and land held for sale.

The Company's headquarters and geothermal operations are located in the United States. Petroleum and natural gas operations are located in Canada. Certain corporate assets relate to the Company's foreign operations (principally deposits in Canadian banks in the amount of \$152,000).

	<u>Geothermal</u>	<u>Petroleum and Natural Gas</u>	<u>Corporate</u>	<u>Other(3)</u>	<u>Total</u>
1990					
Revenue	<u>\$388,399</u>	<u>\$73,114</u>			<u>\$461,513</u>
Operating income (loss)	<u>\$117,810(1)</u>	<u>\$(154,238)(2)</u>	<u>\$(269,292)</u>		<u>(305,720)</u>
Interest expense			<u>(202,273)</u>		<u>(202,273)</u>
Other expense			<u>(11,865)</u>		<u>(11,865)</u>
Other income			<u>97,827</u>		<u>97,827</u>
Loss before income taxes					<u>\$(422,031)</u>
Identifiable assets	<u>\$2,087,725</u>	<u>\$1,054,269</u>	<u>\$259,446</u>	<u>\$59,539</u>	<u>\$3,460,979</u>
Depreciation/Amortization	<u>\$83,712</u>		<u>\$7,847</u>		<u>\$91,559</u>
Capital expenditures	<u>\$13,527</u>	<u>\$771,528</u>	<u>\$1,709</u>	<u>\$59,539</u>	<u>\$846,303</u>
1989					
Revenue	<u>\$446,440</u>				<u>\$446,440</u>
Operating income (loss)	<u>\$271,099</u>	<u>\$(21,458)</u>	<u>\$168,806</u>		<u>\$ 80,835</u>
Interest expense			<u>(180,228)</u>		<u>(180,228)</u>
Other expense			<u>(19,855)</u>		<u>(19,855)</u>
Other income			<u>26,706</u>		<u>26,706</u>
Loss before income taxes					<u>\$(92,542)</u>
Identifiable assets	<u>\$2,233,205</u>	<u>\$481,284</u>	<u>\$173,670</u>		<u>\$2,888,159</u>
Depreciation/Amortization	<u>\$83,712</u>		<u>\$8,175</u>		<u>\$91,887</u>
Capital expenditures		<u>\$561,501</u>			<u>\$561,501</u>

(1) Includes write-off of geothermal development costs of \$58,033.

(2) Includes write-off of investment in joint venture of \$32,187.

(3) Mineral joint venture located in Canada.

	<u>Geothermal</u>	<u>Petroleum and Natural Gas</u>	<u>Corporate</u>	<u>Total</u>
1988				
Revenue	<u>\$318,852</u>			<u>\$318,852</u>
Operating income (loss)	<u>\$152,976</u>		\$(137,536)	\$(152,976)
Interest expense			(148,119)	(148,119)
Legal Settlement			(281,232)	(281,232)
Other expense			(20,061)	(20,061)
Other income			(45,319)	45,319
Loss before income taxes				<u>\$(388,653)</u>
Identifiable assets	<u>\$2,355,979</u>		<u>\$132,826</u>	<u>\$2,488,805</u>
Depreciation/Amortization	<u>\$83,307</u>		<u>\$8,208</u>	<u>\$91,515</u>

THERMAL EXPLORATION COMPANY

SCHEDULE IV - INDEBTEDNESS OF
AND TO RELATED PARTIES - NOT CURRENT

For the Years ended June 30, 1990, 1989, and 1988

Name of Person		-----Indebtedness of-----			-----Indebtedness to-----		
		Balance at Beginning of Period	Additions	Deductions Balance at End	Balance at Beginning	Additions	Deductions Balance End
Steam Reserve Corporation (Operating Partner)	Year ended 6/30/88				\$2,110,613	\$53,543	\$2,164,156
	Year ended 6/30/89				2,164,156	115,301	\$183,055 2,096,402
	Year ended 6/30/90				2,096,402	231,368	176,576 2,151,194
Goliath Gold Mines, Ltd. and Golden Sceptre Resources Ltd. (partners in joint venture)	Year ended 6/30/88				7,163		697 6,466
	Year ended 6/30/89				6,466		6,466
O'Brien Energy and Resources, Ltd. (Former Parent Co.)	Year ended 6/30/88	\$4,351		\$4,351			
	Year ended 6/30/89	4,351		\$4,351			

THERMAL EXPLORATION COMPANY

SCHEDULE V

DEVELOPMENT COSTS & EQUIPMENT

<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Other Changes Debits (Credits)</u>	<u>Balance at End of Period</u>
<u>Year ended June 30, 1990</u>					
Geothermal development costs	\$2,511,348			\$(68,946) ⁽¹⁾	\$2,442,202
Furniture & Fixtures	<u>51,957</u>	<u>\$15,236</u>	<u>\$15,123</u>	<u> </u>	<u>52,070</u>
	<u>\$2,563,305</u>	<u>\$15,236</u>	<u>\$15,123</u>	<u>\$(68,946)</u>	<u>\$2,494,272</u>
<u>Year ended June 30, 1989</u>					
Geothermal development costs	\$2,511,348				\$2,511,348
Furniture and fixtures	<u>51,957</u>	<u> </u>	<u> </u>	<u> </u>	<u>51,957</u>
	<u>\$2,563,305</u>	<u> </u>	<u> </u>	<u> </u>	<u>2,563,305</u>
<u>Year ended June 30, 1988</u>					
Geothermal development costs	\$2,511,348				\$2,511,348
Furniture & Fixtures	<u>51,957</u>	<u> </u>	<u> </u>	<u> </u>	<u>51,957</u>
	<u>\$2,563,305</u>	<u> </u>	<u> </u>	<u> </u>	<u>\$2,563,305</u>

(1) Relates to the collapse of a well.

THERMAL EXPLORATION COMPANY

SCHEDULE VI

ACCUMULATED DEPRECIATION AND AMORTIZATION OF DEVELOPMENT
COSTS AND EQUIPMENT

<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions at Cost</u>	<u>Retirements</u>	<u>Other Changes Debits (Credits)</u>	<u>Balance at End of Period</u>
<u>Year ended June 30, 1990</u>					
Geothermal development costs	\$397,524	\$83,712		\$10,913 ⁽¹⁾	\$470,323
Furniture and fixtures	<u>41,878</u>	<u>6,416</u>	<u>\$14,498</u>	<u> </u>	<u>33,796</u>
	<u>\$439,402</u>	<u>\$90,128</u>	<u>\$14,498</u>	<u>\$10,913</u>	<u>\$504,119</u>
<u>Year ended June 30, 1989</u>					
Geothermal development costs	\$313,812	\$83,712			\$397,524
Furniture and fixtures	<u>35,150</u>	<u>6,728</u>	<u> </u>	<u> </u>	<u>41,878</u>
	<u>\$348,962</u>	<u>90,440</u>	<u> </u>	<u> </u>	<u>\$439,402</u>
<u>Year ended June 30, 1988</u>					
Geothermal development costs	\$230,505	\$83,307			\$313,812
Furniture and fixtures	<u>28,385</u>	<u>6,765</u>	<u> </u>	<u> </u>	<u>35,150</u>
	<u>\$258,890</u>	<u>\$90,072</u>	<u> </u>	<u> </u>	<u>\$348,962</u>

(1) Relates to the collapse of a well.

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