



CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

TSX: MXY

MAGMA ENERGY CORP.**CONSOLIDATED BALANCE SHEETS**

(expressed in thousands of US dollars)

	December 31, 2009	June 30, 2009
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 53,681	\$ 4,483
Receivables	496	334
Prepaid expenses	635	531
	54,812	5,348
Investment in HS Orka hf (Note 3)	97,420	-
Plant and equipment (Note 4)	30,670	21,326
Geothermal properties (Note 5)	23,455	16,026
Other assets (Note 6)	97	232
Deferred share issue costs (Note 9(c))	-	848
	\$ 206,454	\$ 43,780
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,475	\$ 2,600
Long-term debt (Note 7)	48,316	-
Future income tax liability (Note 7)	286	-
Deferred revenue (Note 8)	2,018	1,982
	53,095	4,582
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	153,257	45,058
Contributed surplus (Note 10(b))	578	-
Accumulated other comprehensive income (loss)	12,560	(739)
Deficit	(13,036)	(5,121)
	153,359	39,198
	\$ 206,454	\$ 43,780

Subsequent events (Note 15)

APPROVED BY THE DIRECTORS

“Ross Beaty”

Director

“Robert Pirooz”

Director

See accompanying notes to the consolidated financial statements

MAGMA ENERGY CORP.**CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

(expressed in thousands of US dollars, except for number of share and per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	December 31,	December 31,	December 31,	December 31,
	2009	2008	2009	2008
Revenues				
Energy sales	\$ 1,409	\$ 1,302	\$ 2,414	\$ 1,302
Direct cost of energy production	820	946	1,660	946
Gross profit	589	356	754	356
Expenses				
General and administrative	752	362	1,846	579
Property investigations	451	149	801	379
Amortization	295	205	554	209
Investor relations	153	-	260	-
Professional fees	210	171	384	248
Accretion (Note 8)	123	139	212	139
Travel	30	121	48	128
Depletion	11	19	21	19
Financing costs	-	193	-	828
	2,025	1,359	4,126	2,529
Other income (expenses)				
Equity loss (Note 3)	(1,926)	-	(1,926)	-
Change in fair value of long-term debt (Note 7)	1,087	-	1,087	-
Interest on long-term debt	(50)	-	(50)	-
Foreign exchange gain (loss)	(2,255)	(72)	(3,095)	212
Interest and other income	144	5	254	61
Geothermal property costs written-off	(527)	-	(527)	-
	(3,527)	(67)	(4,257)	273
Loss for the period before taxes	(4,963)	(1,070)	(7,629)	(1,900)
Future income tax expense (Note 7)	(286)	-	(286)	-
Loss for the period	\$ (5,249)	\$ (1,070)	\$ (7,915)	\$ (1,900)
Basic and diluted loss per share	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ (0.01)
Weighted average number of shares	246,138,118	132,146,668	238,625,194	132,146,668

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(expressed in thousands of US dollars)

Comprehensive loss				
Loss for the period	\$ (5,249)	\$ (1,070)	\$ (7,915)	\$ (1,900)
Unrealized foreign exchange translation gain (loss)	2,556	(2,477)	13,299	(2,969)
Comprehensive income (loss) for the period	\$ (2,693)	\$ (3,547)	\$ 5,384	\$ (4,869)

See accompanying notes to the consolidated financial statements

MAGMA ENERGY CORP.**CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(expressed in thousands of US dollars)

	For the Three Months		For the Six Months	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Cash provided from (used in):				
Operating activities				
Loss for the period	\$ (5,249)	\$ (1,070)	\$ (7,915)	\$ (1,900)
Items not involving cash:				
Amortization	295	205	554	209
Depletion	11	19	21	19
Deferred revenue (Note 8)	(215)	(188)	(381)	(188)
Accretion	123	139	212	139
Stock-based compensation	125	-	533	-
Equity loss (Note 3)	1,926	-	1,926	-
Change in fair value of long-term debt	(1,087)	-	(1,087)	-
Unrealized foreign exchange gain on long-term debt	(382)	-	(382)	-
Geothermal property costs written-off	527	-	527	-
Future income tax expense	286	-	286	-
Net changes in non-cash working capital items:				
Receivables	(144)	(129)	(123)	(49)
Prepaid expenses	(83)	(92)	(46)	(143)
Accounts payable and accrued liabilities	273	962	(10)	1,283
	(3,594)	(154)	(5,885)	(630)
Financing activities				
Loan payable	-	224	-	11,020
Repayment of loan payable	-	-	-	(511)
Share subscriptions	-	353	-	353
Special warrants issued for cash, net of issue costs	-	6	-	8,984
Shares issued for cash, net of issue costs	19,773	-	109,044	-
	19,773	583	109,044	19,846
Investing activities				
Purchase price for acquisition of HS Orka hf.	(46,774)	-	(46,774)	-
Transaction costs of acquisition of HS Orka hf.	(1,933)	-	(2,308)	-
Purchase price for acquisition of Soda Lake business	-	-	-	(17,000)
Transaction costs for acquisition of Soda Lake business	-	(264)	-	(557)
Expenditures on plant and equipment	(2,556)	(114)	(7,447)	(151)
Expenditures on geothermal properties	(2,455)	(877)	(6,470)	(12,005)
Purchase of other assets	120	(58)	24	(100)
	(53,598)	(1,313)	(62,975)	(29,813)
Effect of foreign exchange on cash	1,333	(323)	9,014	(585)
Increase (decrease) in cash and cash equivalents	(36,086)	(1,207)	49,198	(11,182)
Cash and cash equivalents, beginning of period	89,767	2,733	4,483	12,708
Cash and cash equivalents, end of period	\$ 53,681	\$ 1,526	\$ 53,681	\$ 1,526

See accompanying notes to the consolidated financial statements

MAGMA ENERGY CORP.**SUPPLEMENTAL INFORMATION RELATING TO OF CASH FLOWS****(Unaudited)**

(expressed in thousands of US dollars)

	For the Three Months		For the Six Months	
	December 31,	December 31,	December 31,	December 31,
	2009	2008	2009	2008
<hr/>				
Supplemental information relating to cash flows:				
Investing activities				
Long-term debt issued as partial consideration for HS Orka hf (Note 7)	\$ 49,403	\$ -	\$ 49,403	\$ -
Application of funds paid in preceding quarter against transaction costs for HS Orka hf acquisition	\$ 375	\$ -	\$ 121	\$ -
<hr/>				
Other cash flow information:				
Interest received	\$ 144	\$ 5	\$ 242	\$ 61

See accompanying notes to the consolidated financial statements

MAGMA ENERGY CORP.**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****(Unaudited)**

(expressed in thousands of US dollars, except for number of shares)

	Common Shares Number	Common Shares Amount	Special Warrants	Share Subscriptions	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Shareholders' Equity
Balance, June 30, 2008	132,146,668	\$ 12,993	\$ -	\$ -	\$ -	\$ (144)	\$ (661)	\$ 12,188
Special warrants issued, net of issue costs	-	-	8,920	-	-	-	-	8,920
Share subscriptions received	-	-	-	353	-	-	-	353
Effect of reporting currency translation	-	-	-	-	-	(2,970)	-	(2,970)
Loss for the period	-	-	-	-	-	-	(1,900)	(1,900)
Balance, December 31, 2008	132,146,668	12,993	8,920	353	-	(3,114)	(2,561)	16,591
Common shares issued, net of issue costs	23,145,000	23,145	-	(353)	-	-	-	22,792
Conversion of special warrants	8,000,000	8,920	(8,920)	-	-	-	-	-
Effect of reporting currency translation	-	-	-	-	-	2,375	-	2,375
Loss for the period	-	-	-	-	-	-	(2,560)	(2,560)
Balance, June 30, 2009	163,291,668	45,058	-	-	-	(739)	(5,121)	39,198
Common shares issued, net of issue costs (Note 9(c))	85,252,973	108,199	-	-	-	-	-	108,199
Stock-based compensation (Note 10(b))	-	-	-	-	578	-	-	578
Effect of reporting currency translation	-	-	-	-	-	13,299	-	13,299
Loss for the period	-	-	-	-	-	-	(7,915)	(7,915)
Balance, December 31, 2009	248,544,641	\$ 153,257	\$ -	\$ -	\$ 578	12,560	\$ (13,036)	153,359

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(Unaudited)

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

1. NATURE AND CONTINUANCE OF OPERATIONS

Magma Energy Corp. and its subsidiary companies (collectively "the Company") are engaged in the operation, development, exploration and acquisition of geothermal energy projects. As at December 31, 2009, the Company owns one operating plant, the Soda Lake Plant, located in Nevada, USA, and exploration properties in North and South America as disclosed in Note 4 and a 40.94% interest in two operating plants in Iceland.

Continuance of the Company's operations is dependent upon achieving profitable operations and obtaining additional equity or debt financing. The recoverability of the carrying values of the Company's geothermal properties is dependent upon the existence and discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties and future profitable production from or proceeds from disposition of geothermal properties. The carrying value of the Company's geothermal property interests does not reflect current or future values.

While the Company has been successful in obtaining financing in the past, there is no assurance that such financing will continue to be available or be available on favourable terms in the future. An inability to raise additional financing may impact the future assessment of the Company as a going concern.

The Company has entered into geothermal property acquisition agreements that, based on their terms, may require future outlays of cash in order to maintain the properties in good standing or in order to fulfil contractual obligations.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of presentation

These consolidated financial statements are presented in United States dollars and include the accounts of Magma Energy Corp. and the following directly or indirectly wholly-owned subsidiaries of the Company:

Directly owned subsidiaries:

- Magma Energy (U.S.) Corp.
- Magma Energy Chile Limitada
- Energia Geotermica S.A.
- Isla Verde Energia S.A.
- Magma Energy Sweden A.B.

Other subsidiaries:

- Soda Lake Holdings I, LLC
- Soda Lake Holdings II, LLC
- Amor IX, LLC
- Soda Lake Limited Partnership ("SLLP")
- Soda Lake Resources Partnership ("SLRP")
- Compañia de Energia Limitada
- Magma Energia Argentina S.A.
- Magma Energy Servicios Limitada

The Company accounts for its 40.94% interest in HS Orka hf. by the equity method.

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(Unaudited)

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Principles of presentation (continued)

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") with respect to the preparation of interim financial statements. Accordingly, they do not include all of the information and disclosures required by Canadian GAAP in the preparation of annual consolidated financial statements. The accounting policies used in the preparation of the accompanying unaudited interim consolidated financial statements are the same as those described in the annual consolidated financial statements and the notes thereto for the fiscal year ended June 30, 2009, with the exception of note 2(c), as disclosed below. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements including the notes thereto for the fiscal year ended June 30, 2009.

(b) Management 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made in the preparation of these financial statements regarding the fair values of employee stock options and financial instruments and valuation of future income tax assets, geothermal properties and asset retirement obligations.

(c) Equity Investments

The Company accounts for investments subject to significant influence by the equity method. Investments subject to significant influence are initially recorded at the fair value of the consideration given up on the date the equity interest is acquired. Thereafter, the Company records its equity share of the equity investee's income or loss for the period as an increase or decrease to the carrying amount of the investment. Dividends received would be recorded as a decrease to the carrying amount of the investment.

(d) Future accounting changes

Business Combinations (Section 1582)

CICA Handbook Section 1582 was issued in January 2009 to replace Section 1581, "Business Combinations". Section 1582 establishes standards for accounting for business combinations and will apply prospectively to those acquisitions completed on or after January 1, 2011. The Company has not yet determined the impact of the adoption of this standard on its unaudited interim consolidated financial statements.

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(Unaudited)

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidated Financial Statements (Section 1601) and Non-Controlling Interest (Section 1602)

CICA handbook Sections 1601 and 1602 were issued in January 2009 and will replace Section 1600, "Consolidated Financial Statements", effective for fiscal years beginning on or after January 1, 2011. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for non-controlling interests in consolidated financial statements. The Company has not yet determined the impact of the adoption of these standards on its unaudited interim consolidated financial statements.

3. ACQUISITION OF HS ORKA HF

Initial investment

In July 2009, the Company entered into an agreement to acquire a 10.78% interest in HS Orka hf ("HS Orka"), a producing geothermal company located in Iceland. On November 17, 2009 the Company completed the acquisition of an 8.62% interest in HS Orka for consideration of 2.5 billion Icelandic Krona ("ISK") (\$16.981 million). A further 2.16% interest is to be acquired by March 31, 2010 for consideration of 625 million ISK (approximately \$5.0 million).

Pursuant to an agreement with the majority shareholder of HS Orka, the Company has the right, for a two year period ending November 16, 2011, to acquire approximately an additional 5% interest in HS Orka in consideration of making a capital infusion of \$15 million into HS Orka.

Subsequent investment

On August 31, 2009, the Company entered into three share purchase agreements to acquire an additional 32.32% interest in HS Orka. These transactions closed on December 14, 2009. Consideration for these acquisitions included an aggregate cash payment of 3.7 billion ISK (\$29.793 million) and the issuance of bonds to the vendors with an aggregate principal amount of \$70.270 million (Note 7). As explained further in note 7, the bonds bear interest at below market rates and contain certain embedded derivatives. The fair value of the bonds at the date of issuance was determined to be \$49.403 million. The bonds have been accounted for as hybrid instruments designated as held-for-trading and are secured by the shares acquired by the Company in these transactions.

Prior to the closing of the acquisitions of the 32.32% interest in HS Orka on December 14, 2009, the investment in HS Orka was classified as available-for-sale.

Summary

Total consideration for all purchases was \$98.630 million. The consideration paid has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition being the date upon which the use of equity accounting first became appropriate. The consolidated financial statements of the Company include the Company's 40.94% share of the operating results of HS Orka commencing on December 14, 2009.

A preliminary allocation of the purchase price to the Company's share of assets and liabilities acquired has been prepared based on preliminary estimates of fair values. The process of determining fair values for the assets and liabilities acquired has not been completed and, therefore, the purchase price allocation is subject to revision. Adjustments, if any, could be material.

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2009****(Unaudited)**

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

3. ACQUISITION OF HS ORKA HF (continued)

The preliminary allocation of the purchase price is summarized below:

Consideration paid:

Cash payment for purchase of 8.62% interest	\$	16,981
Aggregate cash payment for purchase of 32.32% interest		29,793
Aggregate fair value of bonds issued for purchase of 32.32% interest		49,403
Transaction costs		2,453
	\$	98,630
<hr/>		
Carrying value of net assets purchased	\$	26,412
Fair value excess allocated to:		
Property, plant and equipment		26,080
Embedded derivatives in power sales agreements		16,569
Resource and exploration rights		40,513
Customer base of power trading unit		2,035
Future income tax liability		(12,979)
	\$	98,630

Since December 14, 2009, the Company has held a 40.94% interest in the outstanding shares of HS Orka and has the continuing right to appoint two members to its five-member board of directors. The Company has concluded that it has significant influence over HS Orka and has adopted the equity method of accounting for its investment.

The carrying value of the Company's investment in HS Orka as at December 31, 2009 is as follows:

Acquisition costs	\$	98,630
Effect of reporting currency translation		716
Equity loss for the period from December 14, 2009 to December 31, 2009		(1,926)
	\$	97,420

Summary financial information with respect to HS Orka as at December 31, 2009 and for the year then ended is disclosed below. The financial statements of HS Orka were prepared in accordance with International Financial Reporting Standards, which differ in certain respects from those principles and practices under Canadian GAAP. The information below has been reconciled for these differences and has been presented in accordance with Canadian GAAP.

Summary Balance Sheet

Assets		
Current assets	\$	15,907
Non-current assets		302,627
	\$	318,534
<hr/>		
Liabilities		
Current liabilities	\$	42,891
Non-current liabilities		174,922
Shareholders' equity		100,721
	\$	318,534

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2009****(Unaudited)**

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

3. ACQUISITION OF HS ORKA HF (continued)**Summary Statement of Operations**

Revenue	\$	49,834
Production cost and cost of sales		(35,521)
Gross profit		14,313
Other income		45
Operating expenses		(2,941)
Net income from operations		11,417
Finance income		3,920
Finance expenses		(19,516)
Changes in fair value of embedded derivatives		57,341
Changes in fair value of other derivatives		2,679
Share of income of investments subject to significant influence		1,845
Income before income taxes		57,686
Provision for income taxes		(7,408)
Income for the year		50,278
Other comprehensive income		
Effect of foreign currency translation		3,305
Comprehensive income for the year	\$	53,583

4. PLANT AND EQUIPMENT

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Plant and plant equipment	\$ 31,174	\$ 1,182	\$ 29,992
Automotive	167	54	113
Furniture and equipment	721	156	565
	\$ 32,062	\$ 1,392	\$ 30,670

June 30, 2009	Cost	Accumulated Amortization	Net Book Value
Plant and plant equipment	\$ 21,576	\$ 620	\$ 20,956
Automotive	151	33	118
Furniture and equipment	306	54	252
	\$ 22,033	\$ 707	\$ 21,326

Included in plant and plant equipment is a total of \$11,617,415 (June 30, 2009 - \$4,895,826) for assets presently under construction and on which no amortization has been recorded. These assets include drilling costs for new production wells and equipment that have not yet been put into service. Amortization will be recorded when construction has been completed and the assets become operational.

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2009****(Unaudited)**

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

5. GEOTHERMAL PROPERTIES

As at December 31, 2009, the Company holds geothermal properties, or the rights to acquire geothermal properties, in the United States of America (USA), Argentina, Chile and Peru.

At December 31, 2009, the Company's expenditures on geothermal properties are as follows:

Property	Balance, June 30, 2009	Acquisition Costs	Deferred Exploration Costs	Depletion	Effect of Reporting Currency Translation	Costs Written Off	Balance, December 31, 2009
Geothermal properties in production							
USA							
Soda Lake	\$ 1,665	\$ 224	\$ 500	\$ (21)	\$ 177	\$ -	\$ 2,545
Geothermal properties under development							
USA							
Nevada							
McCoy	6,718	8	218	-	715	-	7,659
Desert Queen	1,667	-	192	-	178	-	2,037
Columbus Marsh	753	-	8	-	81	-	842
Beowawe	402	-	5	-	44	-	451
Panther Canyon	248	-	42	-	27	-	317
Quartz Mountain	31	-	8	-	3	-	42
Whitehorse	823	-	1	-	85	(909)	-
Baltazor Hot Springs	-	396	15	-	-	-	411
Buffalo Valley	-	619	30	-	-	-	649
White Rock Canyon	-	1,089	6	-	-	-	1,095
Granite Springs	-	467	55	-	-	-	522
Mopung Hills	-	11	30	-	-	-	41
Land, Mineral County	-	805	1	-	-	-	806
Utah							
Thermo	521	-	5	-	56	-	582
Oregon							
Glass Buttes	142	-	-	-	15	-	157
CHILE							
Maule	2,670	-	1,691	-	284	-	4,645
PERU							
Huaynaputina	37	-	36	-	4	-	77
Casiri	38	-	37	-	4	-	79
Sabancaya	38	-	35	-	4	-	77
Ccollo	38	-	38	-	4	-	80
Ticsani	39	-	37	-	5	-	81
ARGENTINA							
Coranzuli	97	-	22	-	10	-	129
Tuzgle-Tocomar	99	-	22	-	10	-	131
	\$ 16,026	\$ 3,619	\$ 3,034	\$ (21)	\$ 1,706	\$ (909)	\$ 23,455

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2009****(Unaudited)**

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

5. GEOTHERMAL PROPERTIES (continued)

At June 30, 2009, the Company's expenditures on geothermal properties were as follows:

Property	Balance, June 30, 2008	Acquisition Cost	Deferred Exploration Costs	Depletion	Costs Written-off	Balance, June 30, 2009
Geothermal properties in production						
USA						
Soda Lake	\$ -	\$ 1,548	\$ 175	\$ (58)	\$ -	\$ 1,665
Geothermal properties under development						
USA						
Nevada						
McCoy	-	6,584	134	-	-	6,718
Desert Queen	1	1,425	242	-	-	1,667
Columbus Marsh	-	750	3	-	-	753
Beowawe	-	392	10	-	-	402
Panther Canyon	-	160	88	-	-	248
Quartz Mountain	-	28	3	-	-	31
Whitehorse	-	816	7	-	-	823
Utah						
Thermo	-	490	31	-	-	521
Oregon						
Glass Buttes	-	100	42	-	-	142
CHILE						
Maule	-	319	2,351	-	-	2,670
Carrán	-	437	650	-	(1,087)	-
PERU						
Huaynaputina	-	12	25	-	-	37
Casiri	-	12	26	-	-	38
Sabancaya	-	12	26	-	-	38
Collo	-	12	26	-	-	38
Tiscani	-	12	27	-	-	39
ARGENTINA						
Coranzuli	8	-	89	-	-	97
Tuzgle-Tocomar	8	-	90	-	-	99
NICARAGUA						
Ometepe	-	1	-	-	(1)	-
	\$ 17	\$ 13,110	\$ 4,045	\$ (58)	\$ (1,088)	\$ 16,026

The Company owns 100% of its geothermal properties in the USA, Chile and Argentina and owns 100% of the mining rights on the properties in Peru.

In December 2009, the Whitehorse property was returned to its former owners. All costs incurred on the property, in the aggregate of \$908,870, net of the remaining purchase price payable of \$381,651, were written-off.

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(Unaudited)

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

5. GEOTHERMAL PROPERTIES (continued)

USA

- (a) In July 2009, the Company acquired 7 new geothermal properties in Nevada from the Bureau of Land Management ("BLM") in consideration of \$2,559,227. Included in the acquisitions were additional geothermal concessions for the Company's McCoy and Soda Lake properties.

Geothermal leases in the USA are generally for a ten year primary period and require annual lease payments in order to maintain the leases in good standing. The term of the lease may be extended at the end of the primary period, at the sole discretion of the Company.

- (b) In August 2009, the Company entered into a lease agreement whereby the Company was granted the right to explore, prospect and develop geothermal resources on 4,359 acres of property located within the newly acquired Mopung Hills Property (Note 5(a)) in Nevada. The term of the lease is for five years commencing on August 4, 2009 and extendible at the sole discretion of the Company for five additional one-year terms as long as the Company is conducting exploration, development or production on the property. The terms of the lease require annual minimum royalty payments of \$10 per acre commencing upon execution of the lease agreement, \$12 per acre on the first anniversary date and \$15 per acre on each subsequent anniversary date until the commencement of permanent sustained energy production. A production royalty, of 3.5% of gross revenues for the first ten years of production and increasing to 5% for all years thereafter, is payable upon the sale or use of electricity generated from geothermal resources on the property.

The agreement may be terminated by the Company at any time with no obligation except to pay all minimum royalty and production royalty payments that were due at the date of termination. The lease will remain in effect as long as production occurs on the property or a portion thereof. The owner has the right to terminate the agreement if the property is in production status and the Company fails to produce geothermal resources for a period in excess of six months.

- (c) In September 2009, the Company entered into a lease agreement whereby the Company was granted the right to explore, prospect and develop geothermal resources on 626 acres located within new concessions acquired for the Soda Lake property (Note 5(a)). The term of the lease is for five years commencing on September 16, 2009 and extendible for five additional one-year terms at the sole discretion of the Company as long as the Company is conducting exploration, development or production on the property. The terms of the lease require annual minimum royalty payments of \$25 per acre plus \$10,000 commencing upon execution of the lease agreement and \$25 per acre on each subsequent anniversary date until the commencement of permanent sustained energy production. A production royalty, of 1.75% of gross revenues for the first ten years of production and increasing to 3.5% for all years thereafter, is payable upon the sale or use of electricity generated from geothermal resources on the property.

The agreement may be terminated by the Company at any time with no obligation except to pay all rental and royalty payments that were due at the date of termination. The lease will remain in effect as long as production occurs on the property or a portion thereof. The owner has the right to terminate the agreement if the property is in production status and the Company fails to produce geothermal resources for a period in excess of six months.

- (d) On September 21, 2009 the Company acquired 369 acres of land located in Mineral County, Nevada, in consideration of \$800,000. Of this amount, \$500,000 has been paid and the remaining \$300,000 is payable in October 2010.

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(Unaudited)

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

6. OTHER ASSETS

Other assets consist of performance bonds in the aggregate of \$96,986 (June 30, 2009 - \$110,372) pledged to various regulatory authorities in the USA and Chile.

7. LONG-TERM DEBT

On December 14, 2009, the Company issued three bonds with an aggregate principal amount of \$70,269,955 as partial consideration for the acquisition of a 32.32% interest in HS Orka (Note 3). The principal amount of the bonds will mature and become due on December 14, 2016. The bonds are secured by the shares of HS Orka acquired in the transaction. The Company has the option to repay the principal amount at any time, in whole or in part, without penalty.

The principal amounts outstanding at each anniversary date and any prepayments thereof made by the Company in the prior 12-month period are adjusted based on the average of the three-months selling price of aluminum, as posted by the London Metal Exchange for the first business day of each month, for the prior 12-month period. The aluminum price used in the adjustment calculation may not be less than \$1,750 per tonne and may not exceed \$3,250 per tonne.

Interest is payable on each anniversary date of the bonds at the rate of 1.5% per annum on the adjusted average principal amounts outstanding during the 12-month period prior to the anniversary date. Interest payments may be deferred for up to three years. Deferred interest payments will be added to the principal amount and interest will be accrued thereon. For the purposes of calculating interest payable at the end of each year, any pre-payments of the principal amounts during the preceding twelve month period shall also be adjusted based on the average monthly aluminum price for each month prior to the pre-payment.

The indexation of the principal amount of the bonds to the price of aluminum described above, and the pre-payment option represent embedded derivatives. As the Company has chosen to classify the bonds as financial liabilities held-for-trading, the embedded derivatives have not been separated from the host financial instrument and the hybrid liability is being carried at fair value as follows:

Balance, December 14, 2009	\$	49,403
Change in fair value		(1,087)
<u>Balance, December 31, 2009</u>	<u>\$</u>	<u>48,316</u>

The assumptions used in determining the fair value of the bonds are as follows:

Discount rates	8.45% - 11.03%
Aluminum prices	\$2,242 - \$2,670

The Company has recorded a future income tax liability of \$285,919 with respect to the change in the fair value of the bonds.

8. DEFERRED REVENUE

The Soda Lake geothermal power plant has a power purchase agreement with NV Energy to sell all electricity produced by the plant under established contract rates for the first 30 years of operations ending in 2021. The power purchase agreement provides for both energy and capacity payments on a

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2009****(Unaudited)**

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

8. DEFERRED REVENUE (continued)

blended rate basis. The energy rate component is primarily a base contract rate adjusted annually for inflation. The capacity rate is primarily fixed for years one through ten, fixed to a higher rate for years eleven through twenty and fixed at the lowest contract rate for years twenty-one through thirty.

Upon acquisition of this contract by the Company on October 3, 2008, an estimate of the contract's fair value was made. As the contractually stated rates for power are expected to be below prevailing market rates for electricity throughout the remainder of the term of the contract, the fair value of the agreement represents an additional liability assumed by the Company upon acquisition of the Soda Lake business. This liability is being drawn down over the remaining term of the contract as power is being supplied at below-market rates. The amount of additional revenue so recognized each period is limited to the amount originally estimated in connection with that period upon assumption of the contract on October 3, 2008.

As the fair value of the agreement was determined using a discounted cash flows approach, accretion of the liability due to the passage of time is recognized each period until the end of the contract term.

9. SHARE CAPITAL**(a) Authorized****(b) Issued and outstanding****Common shares:**

	Number of Shares		Amount
Balance, June 30, 2008	132,146,668	\$	12,993
Issued for cash, net of issue costs			
Private placements	31,145,000		32,065
Balance, June 30, 2009	163,291,668		45,058
Issued for cash, net of issue costs			
Initial public offering (Note 9(c)(i))	73,600,334		88,426
Private placement (Note 9(c)(ii))	11,652,639		19,773
Balance, December 31, 2009	248,544,641	\$	153,257

(c) (i) Initial Public offering

On July 7, 2009, the Company completed an initial public offering and issued 66,667,000 common shares at a price of C\$1.50 per share. The Company also granted an over-allotment option for the issue of up to an additional 10,000,050 common shares exercisable within 30 days from the date of closing of the public financing. On July 20, 2009 the Company issued 6,933,334 common shares pursuant to the exercise of this option. Total proceeds received from the offering and the exercise of the option were \$88,425,496, net of issue costs of \$6,727,330.

A total of \$847,717 of costs related to this offering had been incurred at June 30, 2009.

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(Unaudited)

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

9. SHARE CAPITAL (continued)

(ii) Private Placement

In October 2009, the Company completed a private placement and issued 11,652,639 common shares at a price of C\$1.85 per share for proceeds of approximately \$19,773,394, net of issue costs of \$782,843.

10. STOCK OPTIONS

(a) Options outstanding

Under the Company's stock option plan, the board of directors may grant options for the purchase of up to a total of 10% of the total number of issued and outstanding common shares of the Company. Options granted under the plan vest over time at the discretion of the board of directors. Exercise prices on options granted under the plan are determined by reference to the market value on the date of the grant.

Summary of the Company's stock options as at December 31, 2009 and changes during the period then ended are as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at June 30, 2009	-	-
Granted	2,440,000	C \$1.55
Cancelled	(30,000)	C \$1.50
Outstanding at December 31, 2009	2,410,000	C \$1.55

At December 31, 2009, the Company had outstanding stock options to purchase an aggregate of 2,410,000 common shares as follows:

Options Outstanding			Options Exercisable	
Number of Shares	Expiry Date	Exercise Price	Number of Shares	Exercise Price
2,110,000	July 7, 2014	C\$1.50	703,328	C\$1.50
200,000	September 14, 2014	C\$1.99	66,667	C\$1.99
100,000	December 18, 2014	C\$1.81	33,332	C\$1.81
2,410,000		C\$1.55	803,327	C\$1.55

(b) Contributed Surplus

	Number of Options	Fair Value Amount		
		Outstanding	Cancelled	Total
Unexercised options, June 30, 2009	-	\$ -	\$ -	\$ -
Options granted	2,440,000	578	-	578
Options cancelled	(30,000)	(6)	6	-
Unexercised options, December 31, 2009	2,410,000	\$ 572	\$ 6	\$ 578

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(Unaudited)

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

10. STOCK OPTIONS (continued)

The weighted average fair value of options granted during the period, at the date of grant, was C\$0.49.

Pursuant to the Company's accounting policy for stock-based compensation, the fair value of options vesting during the period, in the amount of \$578,349 (2008 – nil) has been recorded. Of this amount, \$398,275 (2008 – nil) has been included in general and administrative, \$79,048 (2008 – nil) has been included in property investigations, \$55,786 (2008 – nil) has been included in investor relations and \$41,132 (2008 – nil) has been capitalized to geothermal properties and \$4,108 (2008 – nil) has been capitalized to plant and equipment.

The fair value used to calculate the compensation expense related to the stock options granted is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	1.23% - 1.31%
Expected dividend yield	-
Expected stock price volatility	42% - 52%
Expected option life in years	2.5
Expected rate of forfeiture	5%

Option pricing models require the input of highly subjective assumptions including the expected 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.

11. SEGMENTED DISCLOSURE

Until October 3, 2008, the Company had one operating segment, the exploration of geothermal properties. On October 3, 2008, the Company acquired the Soda Lake geothermal power plant and consequently, has two distinct business segments:

- a) The exploration of geothermal properties; and
- b) The production and sale of geothermal power.

All revenue was generated in the USA and, during the six months ended December 31, 2009, one customer accounted for 100% of revenues.

The Company's proportionate share of the operating results from HS Orka has been included under the production and sales segment.

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2009****(Unaudited)**

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

11. SEGMENTED DISCLOSURE (continued)

	December 31, 2009		
	Geothermal Exploration	Production and Sales	Total
CANADA			
Current assets	\$ 52,754	\$ -	\$ 52,754
Property, plant and equipment	321	-	321
	53,075	-	53,075
USA			
Current assets	710	702	1,412
Plant and equipment	173	30,056	30,229
Geothermal properties	16,240	1,916	18,156
Other assets	50	11	61
	17,173	32,685	49,858
CHILE			
Current assets	606	-	606
Plant and equipment	120	-	120
Geothermal properties	4,645	-	4,645
Other assets	36	-	36
	5,407	-	5,407
PERU			
Current assets	12	-	12
Geothermal properties	394	-	394
	406	-	406
ARGENTINA			
Current assets	15	-	15
Geothermal properties	260	-	260
	275	-	275
SWEDEN			
Current assets	13	-	13
ICELAND			
Other assets	-	97,420	97,420
Total assets	\$ 76,349	\$ 130,105	\$ 206,454
Capital expenditures	\$ 7,502	\$ 107,029	\$ 114,531

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2009****(Unaudited)**

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

11. SEGMENTED DISCLOSURE (continued)**For the Three Months Ended December 31, 2009**

	Geothermal Exploration		Production and Sales		Total
Revenue	\$	-	\$	1,409	\$ 1,409
Direct cost of energy production		-		820	820
Gross profit		-		589	589
General and administrative		(752)		-	(752)
Property investigations		(451)		-	(451)
Amortization		(43)		(252)	(295)
Professional fees		(210)		-	(210)
Investor relations		(153)		-	(153)
Accretion		-		(123)	(123)
Travel		(30)		-	(30)
Depletion		-		(11)	(11)
Equity loss		-		(1,926)	(1,926)
Change in fair value of long-term debt		-		1,087	1,087
Interest on long-term debt		-		(50)	(50)
Foreign exchange loss		(2,471)		216	(2,255)
Interest and other income		144		-	144
Geothermal property costs written-off		(527)		-	(527)
Future income tax expense		-		(286)	(286)
Earnings (loss) for the period	\$	(4,493)	\$	(756)	\$ (5,249)

For the Three Months Ended December 31, 2008

	Geothermal Exploration		Production and Sales		Total
Revenue	\$	-	\$	1,302	\$ 1,302
Direct cost of energy production		-		946	946
Gross profit		-		356	356
Financing costs		(193)		-	(193)
General and administrative		(362)		-	(362)
Property investigations		(149)		-	(149)
Amortization		(5)		(200)	(205)
Professional fees		(171)		-	(171)
Accretion		-		(139)	(139)
Travel		(121)		-	(121)
Depletion		-		(19)	(19)
Foreign exchange loss		(72)		-	(72)
Interest and other income		3		2	5
Loss for the period	\$	(1,070)	\$	-	\$ (1,070)

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2009****(Unaudited)**

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

11. SEGMENTED DISCLOSURE (continued)**For the Six Months Ended December 31, 2009**

	Geothermal Exploration		Production and Sales		Total
Revenue	\$	-	\$	2,414	\$ 2,414
Direct cost of energy production		-		1,660	1,660
Gross profit		-		754	754
General and administrative		(1,846)		-	(1,846)
Property investigations		(801)		-	(801)
Amortization		(80)		(474)	(554)
Professional fees		(384)		-	(384)
Investor relations		(260)		-	(260)
Accretion		-		(212)	(212)
Travel		(48)		-	(48)
Depletion		-		(21)	(21)
Equity earnings		-		(1,926)	(1,926)
Change in fair value of long-term debt		-		1,087	1,087
Interest on long-term debt		-		(50)	(50)
Foreign exchange loss		(3,750)		655	(3,095)
Interest and other income		254		-	254
Geothermal property costs written-off		(527)		-	(527)
Future income tax expense		-		(286)	(286)
Earnings (loss) for the period	\$	(7,442)	\$	(473)	\$ (7,915)

For the Six Months Ended December 31, 2008

	Geothermal Exploration		Production and Sales		Total
Revenue	\$	-	\$	1,302	\$ 1,302
Direct cost of energy production		-		946	946
Gross profit		-		356	356
Financing costs		(828)		-	(828)
General and administrative		(579)		-	(579)
Property investigations		(379)		-	(379)
Amortization		(9)		(200)	(209)
Professional fees		(248)		-	(248)
Accretion		-		(139)	(139)
Travel		(128)		-	(128)
Depletion		-		(19)	(19)
Foreign exchange gain		212		-	212
Interest and other income		59		2	61
Loss for the period	\$	(1,900)	\$	-	\$ (1,900)

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(Unaudited)

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

12. MANAGEMENT OF FINANCIAL RISKS

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities and long-term debt. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and may involve significant uncertainties in matters of judgment and, therefore, cannot be determined with precision. Other than long-term debt, the fair values of the Company's financial instruments approximate their carrying values due to their short term to maturity or capacity for prompt liquidation.

The types of financial risk exposure and the way in which such exposure is managed by the Company is as follows:

Credit Risk

Management does not believe the Company is exposed to any significant credit risk. The majority of receivables are owed by the Company's one customer and the amounts owed have historically been received within 30 days.

The Company's exposure to credit risk on its cash is limited by maintaining these assets with high-credit quality financial institutions. The Company may be exposed to the credit risk of South American banks which hold cash for the Company's South American operations. The Company limits its exposure to this risk by maintaining minimal cash balances in those countries to fund the immediate needs of its South American subsidiaries.

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company manages liquidity risk by ensuring that it has sufficient cash, credit facilities and other financial resources available to meet its obligations. The Company forecasts cash flows for a period of 12 months to identify financial requirements. These requirements are met through a combination of cash flows from operations, credit facilities and accessing capital markets.

At December 31, 2009 and June 30, 2009, the Company's current liabilities consisted primarily of trade and other payables which are due within the next quarter. The Company's cash and cash equivalents of \$53,681,192 at December 31, 2009 and \$4,482,693 at June 30, 2009 were more than sufficient to pay these current liabilities.

Interest on long-term debt is due on December 14 of each year, commencing in 2010 until 2016 inclusive. The amount of interest payable on each due date is estimated to be approximately \$1,070,000, subject to adjustments to the principal amounts outstanding as described in note 7 and assuming no prepayments of any portion of the principal amounts outstanding or deferral of annual interest payments. The Company has the right to defer up to three interest payments but currently expects that the payment due in 2010 will be paid from cash on hand.

Market Risk

The significant market risk exposures to which the Company is exposed are interest rate risk, currency risk and commodity price risk.

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(Unaudited)

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

12. MANAGEMENT OF FINANCIAL RISKS (continued)

Interest Rate Risk

Interest rate risk is the risk that the future cash flows and fair values of the Company will fluctuate because of changes in market interest rates. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and short-term investments mature and the proceeds are invested at lower interest rates.

Based on the above net exposures as at December 31, 2009 and 2008, and assuming that all other variables remain constant, a 1% increase or decrease in interest rates would result in an increase or decrease of approximately \$234,000 and \$2,300 respectively, in the Company's interest income.

Currency Risk

The functional currency of the Company and its subsidiaries is the Canadian dollar. The carrying amounts of monetary assets and liabilities denominated in currencies other than the Canadian dollar are subject to fluctuations in the underlying foreign currency exchange rates. Gains and losses on such items are included as a component of net loss for the period.

The functional currency of HS Orka is the ISK and, therefore, HS Orka is exposed to currency risk on its sales, purchases and borrowings that are denominated in currencies other than ISK. The currencies in which these transactions are primarily denominated are the US dollar, Swiss franc, Euro and Japanese yen. HS Orka does not in general hedge against foreign exchange rate risk, but may hedge single, large transactions with forward foreign exchange agreements for shorter periods. HS Orka does not hedge its currency risk on its long-term debt denominated in foreign currencies.

The reporting currency selected for the presentation of these consolidated financial statements is the U.S. dollar. For presentation purposes, all assets and liabilities are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. As a result, reported amounts of all assets and liabilities will fluctuate with changes in the underlying Canadian dollar – U.S. dollar exchange rate. Gains and losses arising upon translation into U.S. dollars are reported as a component of accumulated other comprehensive income or loss.

Commodity Price Risk

The Company's commodity consists of power produced. At the Company's Soda Lake facility, all power currently produced is sold to one customer under the terms of a 30 year power purchase agreement ("PPA") which consists of a fixed price component and an escalating price component. Because all power produced will be sold at rates specified by the PPA until 2021, revenue from the Soda Lake facility is not exposed to significant commodity price risk.

HS Orka has entered into PPAs for the sale of electrical power whereby the sales price of the power is partially based on the market price of aluminum. Therefore, its revenues and profitability of its operations are significantly exposed to fluctuations in the price of aluminum. A 10% increase or decrease in the price of aluminum would have increased or decreased the net income of HS Orka by \$23.114 million in 2009. HS Orka does not hedge against aluminum price changes.

As disclosed in note 7 the bonds issued as partial consideration for the purchase of HS Orka are subject to adjustment based on the price of aluminum. Therefore, the principal amounts owed on the due date, and the annual interest payments thereon, will fluctuate with the price of aluminum.

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

(Unaudited)

(Tabular amounts are expressed in thousands of US dollars, except for number of shares and options and per share amounts)

13. CAPITAL DISCLOSURES

It is the Company's objective when managing capital to safeguard its ability to continue as a going concern in order that it may continue to explore and develop its projects and continue its operations for the benefit of its shareholders. The Company objectives when managing capital are to:

- (a) continue the exploration and development of its geothermal properties;
- (b) continue to acquire interests in geothermal energy producing companies;
- (c) support any expansion plans; and
- (d) maintain a capital structure which optimises the cost of capital at acceptable risk.

The Company manages its shareholders' equity and long-term debt as capital. The Company intends to expend existing working capital by carrying out its planned acquisition, exploration and development activities on its geothermal properties, by expanding the output capacity of the Soda Lake geothermal plant and continuing to pay administrative costs.

The Company is not subject to any externally imposed capital requirements.

14. COMMITMENTS AND CONTINGENCIES

- (a) The Company has entered into lease agreements for the rental of office facilities that require minimum payments in the aggregate as follows:

Fiscal 2010	\$	106
Fiscal 2011		178
Fiscal 2012		165
Fiscal 2013		93
Fiscal 2014		60
Fiscal 2015		31
<hr/>		
Total lease commitments	\$	633

- (b) On May 14, 2008, a Complaint entitled Katherine Arai, et al v. CD Soda SLR, Inc. et al, including SLRP, was filed in the Third Judicial District of the State of Nevada. The Plaintiffs alleged that they were not being paid the correct amount of royalty payments. The amounts allegedly not paid are not known but Plaintiffs claim that such amounts exceed \$10,000. Management is unable to conclude that an unfavorable outcome in this matter is either probable or remote, and is unable to estimate the amount or range of a potential loss, if any. Accordingly, no amount has been accrued in these financial statements in connection with this claim.

15. SUBSEQUENT EVENTS

In January 2010, the Company was awarded the Pellado property consisting of 100,000 hectares located adjacent to the Company's Maule property in Chile. There are no financial commitments associated with the award of this property.