



CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009 and 2008

TSX: MXY

MAGMA ENERGY CORP.**CONSOLIDATED STATEMENTS OF OPERATIONS**

For the Three Months Ended September 30, 2009 and 2008

(Unaudited)

(expressed in US dollars)

	2009	2008
Revenues		
Energy sales	\$ 1,005,021	\$ -
Direct cost of energy production	840,205	-
Gross profit	164,816	-
Expenses		
General and administrative	1,093,323	217,326
Property investigations	351,432	230,474
Amortization	258,571	4,135
Professional fees	174,013	76,150
Investor relations	106,336	-
Accretion (Note 7)	89,276	-
Travel	18,395	6,676
Depletion	10,111	-
Financing costs	-	634,631
	2,101,457	1,169,392
Other income (expense)		
Foreign exchange gain (loss)	(839,076)	284,197
Interest and other income	110,128	55,335
	(728,948)	339,532
Loss for the period	\$ (2,665,589)	\$ (829,860)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)
Weighted average number of shares	231,112,270	132,146,668
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)		
(expressed in US dollars)		
Comprehensive income (loss)		
Loss for the period	\$ (2,665,589)	\$ (829,860)
Unrealized foreign exchange translation gain (loss)	10,742,684	(435,667)
Comprehensive income (loss) for the period	\$ 8,077,095	\$ (1,265,527)

See accompanying notes to the consolidated financial statements

MAGMA ENERGY CORP.**CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Three Months Ended September 30, 2009 and 2008****(Unaudited)**

(expressed in US dollars)

	2009	2008
Cash provided from (used in):		
Operating activities		
Loss for the period	\$ (2,665,589)	\$ (829,860)
Items not involving cash:		
Amortization	258,571	4,135
Depletion	10,111	-
Deferred revenue (Note 7)	(166,218)	-
Accretion	89,276	-
Stock-based compensation	449,373	-
Net changes in non-cash working capital items:		
Receivables	18,025	96,660
Prepaid expenses	33,959	(47,617)
Accounts payable and accrued liabilities	(280,414)	268,589
	(2,252,906)	(508,093)
Financing activities		
Loan payable	-	11,989,673
Repayment of loan payable	-	(511,186)
Special warrants issued for cash, net of issue costs	-	8,920,316
Shares issued for cash, net of issue costs	89,271,713	-
	89,271,713	20,398,803
Investing activities		
Advance payment of purchase price for acquisition of Soda Lake business	-	(17,000,000)
Payment of transaction costs for acquisition of Soda Lake business	-	(203,698)
Expenditures on plant and equipment	(4,849,059)	(31,339)
Expenditures on geothermal properties	(3,993,553)	(12,064,416)
Purchase of other assets	(494,026)	(100,000)
	(9,336,638)	(29,399,453)
Effect of foreign exchange on cash	7,601,708	(466,920)
Increase (decrease) in cash and cash equivalents	85,283,877	(9,975,663)
Cash and cash equivalents, beginning of period	4,482,693	12,708,947
Cash and cash equivalents, end of period	\$ 89,766,570	\$ 2,733,284
Supplemental information relating to cash flows:		
There were no non-cash financing and investing activities during the fiscal periods ended September 30, 2009 and 2008.		
Other cash flow information:		
Interest paid	\$ -	\$ 95,653

See accompanying notes to the consolidated financial statements

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

(expressed in US dollars)

	Common Shares		Special Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Shareholders' Equity
	Number	Amount					
Balance, June 30, 2008	132,146,668	\$ 12,993,484	\$ -	\$ -	\$ (144,175)	\$ (661,340)	\$ 12,187,969
Special warrants issued, net of issue costs	-	-	8,920,316	-	-	-	8,920,316
Foreign exchange translation	-	-	-	-	(435,667)	-	(435,667)
Loss for the period	-	-	-	-	-	(829,860)	(829,860)
Balance, September 30, 2008	132,146,668	12,993,484	8,920,316	-	(579,842)	(1,491,200)	19,842,758
Common shares issued, net of issue costs	23,145,000	23,144,417	-	-	-	-	23,144,417
Conversion of special warrants	8,000,000	8,920,316	(8,920,316)	-	-	-	-
Foreign exchange translation	-	-	-	-	(159,804)	-	(159,804)
Loss for the period	-	-	-	-	-	(3,629,696)	(3,629,696)
Balance, June 30, 2009	163,291,668	45,058,217	-	-	(739,646)	(5,120,896)	39,197,675
Common shares issued, net of issue costs (Note 8(c))	73,600,334	88,427,047	-	-	-	-	88,427,047
Option compensation (Note 9(b))	-	-	-	449,373	-	-	449,373
Foreign exchange translation	-	-	-	-	10,742,684	-	10,742,684
Loss for the period	-	-	-	-	-	(2,665,589)	(2,665,589)
Balance, September 30, 2009	236,892,002	\$ 133,485,264	\$ -	\$ 449,373	\$ 10,003,038	\$ (7,786,485)	\$ 136,151,190

See accompanying notes to the consolidated financial statements

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(Unaudited)

(expressed in US dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Magma Energy Corp. (the "Company") was incorporated on January 22, 2008, pursuant to the Business Corporations Act of British Columbia.

The Company is engaged in the operation, development, exploration and acquisition of geothermal energy projects. As at September 30, 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.

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

September 30, 2009

(Unaudited)

(expressed in US dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Principles of presentation (continued)

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("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. 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 generally accepted accounting principles 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) 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 business combinations for 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.

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.

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2009

(Unaudited)

(expressed in US dollars)

3. PLANT AND EQUIPMENT

September 30, 2009	Cost	Accumulated Amortization	Net Book Value
Plant and plant equipment	\$ 28,377,880	\$ 911,889	\$ 27,465,991
Automotive	164,408	44,861	119,547
Furniture and equipment	383,911	99,931	283,980
	\$ 28,926,199	\$ 1,056,681	\$ 27,869,518

June 30, 2009	Cost	Accumulated Amortization	Net Book Value
Plant and plant equipment	\$ 21,575,835	\$ 619,570	\$ 20,956,265
Automotive	151,360	33,328	118,032
Furniture and equipment	306,199	54,280	251,919
	\$ 22,033,394	\$ 707,178	\$ 21,326,216

Included in plant and plant equipment is a total of \$10,259,966 (June 30, 2009 - \$4,895,826) for assets presently under construction and on which no amortization has been recorded. Amortization will be recorded when construction has been completed and the assets become operational.

4. GEOTHERMAL PROPERTIES

As at September 30, 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 September 30, 2009, the Company's expenditures on geothermal properties are as follows:

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(Unaudited)

(expressed in US dollars)

4. GEOTHERMAL PROPERTIES (continued)

Property	Balance, June 30, 2009	Acquisition Costs	Deferred Exploration Costs	Depletion	Foreign Exchange Loss	Balance, September 30, 2009
Geothermal properties in production						
USA						
Soda Lake	\$ 1,664,572	\$ 38,208	\$ 253,688	\$ (10,111)	\$ 143,719	\$ 2,090,076
Geothermal properties under development						
USA						
Nevada						
McCoy	6,718,240	7,731	178,226	-	579,149	7,483,346
Desert						
Queen	1,667,127	-	124,802	-	143,715	1,935,644
Columbus						
Marsh	753,338	-	7,759	-	64,942	826,039
Beowawe	402,327	-	5,262	-	34,683	442,272
Panther						
Canyon	248,264	-	40,517	-	21,402	310,183
Quartz						
Mountain	30,673	-	7,759	-	2,645	41,077
Whitehorse	823,023	-	637	-	70,949	894,609
Baltazor Hot						
Springs	-	389,170	13,963	-	-	403,133
Buffalo Valley	-	608,007	27,628	-	-	635,635
White Rock						
Canyon	-	1,069,242	5,865	-	-	1,075,107
Granite	-					
Springs	-	458,417	52,141	-	-	510,558
Mopung Hills	-	10,334	29,171	-	-	39,505
Utah						
Thermo	520,761	-	209	-	44,892	565,862
Oregon						
Glass Buttes	141,987	-	125	-	12,239	154,351
CHILE						
Maule	2,670,019	-	657,782	-	230,172	3,557,973
PERU						
Huaynaputina	37,587	-	16,710	-	3,240	57,537
Casiri	37,687	-	17,780	-	3,250	58,717
Sabancaya	37,865	-	16,655	-	3,263	57,783
Ccollo	37,864	-	17,483	-	3,265	58,612
Ticsani	39,468	-	18,795	-	3,402	61,665
ARGENTINA						
Coranzuli	97,016	-	9,225	-	8,362	114,603
Tuzgle-						
Tocomar	98,598	-	9,224	-	8,501	116,323
	\$ 16,026,416	\$ 2,581,109	\$ 1,511,406	\$ (10,111)	\$ 1,381,790	\$ 21,490,610

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(Unaudited)

(expressed in US dollars)

4. GEOTHERMAL PROPERTIES (continued)

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.

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 4(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 4(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.

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(Unaudited)

(expressed in US dollars)

5. OTHER ASSETS

Other assets consist of performance bonds in the aggregate of \$213,375 (June 30, 2009 - \$110,372) pledged to various regulatory authorities in the USA, Peru and other jurisdictions in which the Company has bid for geothermal concessions, and \$535,396 (June 30, 2009 - \$121,105) of costs incurred in connection with the acquisition of an interest in a producing geothermal company located in Iceland (Note 14).

6. RELATED PARTY TRANSACTIONS

On August 25, 2008 the Company entered into a credit agreement with a director pursuant to which the Company is able to borrow up to Canadian \$ ("C\$")20,000,000 to assist in the acquisition of geothermal properties and operations. The funds will be advanced in stages, as required by the Company. Each advance is repayable on the earliest of twelve months from the date of the initial advance, a change of control of the Company, the completion of any initial public offering or on a default by the Company. Interest at the rate of 8% per annum, compounded daily, is payable monthly. In addition, a standby fee in the amount of 1% of the credit facility and a drawdown fee in the amount of 3% of the amount advanced is payable in cash.

No advances are currently drawn under this credit facility.

7. 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 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.

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2009

(Unaudited)

(expressed in US dollars)

8. SHARE CAPITAL**(a) Authorized**

An unlimited number of common shares without par value.

(b) Issued and outstanding**Common shares:**

	Number of Shares	Amount
Balance, June 30, 2009	163,291,668	\$ 45,058,217
Issued for cash, net of issue costs		
Initial public offering (Note 8(c))	73,600,334	88,427,047
Balance, September 30, 2009	236,892,002	\$ 133,485,264

(c) 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 \$88,427,047, net of issue costs of \$6,725,780.

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

9. 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 September 30, 2009 and changes during the period then ended are as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at June 30, 2009	-	-
Granted	2,340,000	C \$1.54
Outstanding at September 30, 2009	2,340,000	C \$1.54

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2009

(Unaudited)

(expressed in US dollars)

9. STOCK OPTIONS (continued)

At September 30, 2009, the Company had outstanding stock options to purchase an aggregate of 2,340,000 common shares as follows:

Options Outstanding			Options Exercisable	
Number of Shares	Expiry Date	Exercise Price	Number of Shares	Exercise Price
2,140,000	July 7, 2014	C\$1.50	713,328	C\$1.50
200,000	September 14, 2014	C\$1.99	66,667	C\$1.99
2,340,000		C\$1.54	779,995	C\$1.54

(b) Stock-based compensation

	Number of Options	Fair Value Amount	
		Vested	Unvested
Unexercised options, June 30, 2009	-	\$ -	\$ -
Options granted	2,340,000	449,373	568,542
Unexercised options, September 30, 2009	2,340,000	\$ 449,373	\$ 568,542

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 \$432,160 (2008 - nil) has been recorded. Of this amount, \$301,055 (2008 - nil) has been included in general and administrative, \$66,254 (2008 - nil) has been included in property investigations, \$41,195 (2008 - nil) has been included in investor relations and \$23,656 (2008 - nil) has been capitalized to geothermal properties.

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% - 1.29%
Expected dividend yield	-
Expected stock price volatility	46% - 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.

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2009

(Unaudited)

(expressed in US dollars)

10. 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 three months ended September 30, 2009, one customer accounted for 100% of revenues.

	September 30, 2009		
	Geothermal Exploration	Production and Sales	Total
CANADA			
Current assets	\$ 89,131,836	\$ -	\$ 89,131,836
Property, plant and equipment	111,653	-	111,653
Other assets	637,927	-	637,927
	89,881,416	-	89,881,416
USA			
Current assets	402,793	405,375	808,168
Plant and equipment	152,155	27,562,698	27,714,853
Geothermal properties	15,559,518	1,847,879	17,407,397
Other assets	50,000	10,828	60,828
	16,164,466	29,826,780	45,991,246
CHILE			
Current assets	647,819	-	647,819
Plant and equipment	43,012	-	43,012
Geothermal properties	3,557,973	-	3,557,973
	4,248,804	-	4,248,804
PERU			
Current assets	25,140	-	25,140
Geothermal properties	294,314	-	294,314
Other assets	50,016	-	50,016
	369,470	-	369,470
ARGENTINA			
Current assets	25,824	-	25,824
Geothermal properties	230,926	-	230,926
	256,750	-	256,750
SWEDEN			
Current assets	14,080	-	14,080
Total assets	\$ 110,934,986	\$ 29,826,780	\$ 140,761,766
Capital expenditures	\$ 5,878,365	\$ 7,010,966	\$ 12,889,331

MAGMA ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2009

(Unaudited)

(expressed in US dollars)

10. SEGMENTED DISCLOSURE (continued)

For the Three Months Ended September 30, 2009	Geothermal Exploration	Production and Sales	Total
Revenue			
Energy sales	\$ -	\$ 1,005,021	\$ 1,005,021
Direct cost of energy production	-	840,205	840,205
Gross profit	-	164,816	164,816
Expenses			
General and administrative	(1,093,323)	-	(1,093,323)
Property investigations	(351,432)	-	(351,432)
Amortization	(37,305)	(221,266)	(258,571)
Professional fees	(174,013)	-	(174,013)
Investor relations	(106,336)	-	(106,336)
Accretion	-	(89,276)	(89,276)
Travel	(18,395)	-	(18,395)
Depletion	-	(10,111)	(10,111)
Foreign exchange loss	(839,076)	-	(839,076)
Interest and other income	110,128	-	110,128
Loss for the period	\$ (2,509,752)	\$ (155,837)	\$ (2,665,589)

For the Three Months Ended September 30, 2008	Geothermal Exploration	Production and Sales	Total
Expenses			
Financing Costs	\$ (634,631)	\$ -	\$ (634,631)
Property investigations	(230,474)	-	(230,474)
General and administrative	(217,326)	-	(217,326)
Professional fees	(76,150)	-	(76,150)
Travel	(6,676)	-	(6,676)
Amortization	(4,135)	-	(4,135)
Foreign exchange gain	284,197	-	284,197
Interest and other income	55,335	-	55,335
Loss for the period	\$ (829,860)	\$ -	\$ (829,860)

11. MANAGEMENT OF FINANCIAL RISKS

The Company's financial instruments consist of cash and cash equivalents, receivables and accounts payable and accrued liabilities. 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. 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:

September 30, 2009

(Unaudited)

(expressed in US dollars)

11. MANAGEMENT OF FINANCIAL RISKS (continued)

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 C\$ and US\$ 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 September 30, 2009 and June 30, 2009, the Company's liabilities consisted of trade and other payables which are due within the next quarter. The Company's cash and cash equivalents of \$89,766,570 at September 30, 2009 and \$4,482,693 at June 30, 2009 were more than sufficient to pay these current liabilities.

Market Risk

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

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 September 30, 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 \$221,750 and \$5,000 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 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

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(Unaudited)

(expressed in US dollars)

11. MANAGEMENT OF FINANCIAL RISKS (continued)

Currency Risk (continued)

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. 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, the Company is not exposed to significant commodity price risk.

12. 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) support any expansion plans; and
- (c) maintain a capital structure which optimises the cost of capital at acceptable risk.

The Company manages its common shares 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.

13. 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	\$	126,533
Fiscal 2011		124,015
Fiscal 2012		106,030
Fiscal 2013		33,236
<u>Total lease commitments</u>	<u>\$</u>	<u>389,814</u>

- (b) In January 2009, the Company entered into an agreement to acquire a 100% interest in two geothermal leases consisting of 944 acres located near the Soda Lake geothermal plant in Nevada in consideration of \$184,842. Payment for the acquisition is contingent upon the receipt of clear title to the leases. The leases are subject to a royalty of 1% of the proceeds from the sale by the Company of any electrical power generated from geothermal resources located on the leased properties.

- (c) On August 7, 2003, a lawsuit entitled Emma Wagner v. Chevron Oil, et. al., including Amor IX, LLC, SLLP and SLRP, was filed in the Third Judicial District Court of the State of Nevada. The Plaintiff alleged that she was improperly excluded from a geothermal unit agreement, which allegedly resulted in the Plaintiff not being paid certain royalty payments. The Defendant filed a

MAGMA ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(Unaudited)

(expressed in US dollars)

13. COMMITMENTS AND CONTINGENCIES (continued)

motion for summary judgment, which the court granted via an order issued January 9, 2008. Plaintiff then filed a notice of appeal on February 8, 2008. On September 25, 2009 the Supreme Court of the State of Nevada affirmed the judgment of the District Court in favor of the Defendant.

- (d) 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.
- (e) On September 21, 2009 the Company entered into an agreement to acquire 369 acres of land located in Mineral County, Nevada, in consideration of \$800,000, of which \$500,000 is payable upon closing of the transaction and the remaining \$300,000 payable in one year. The transaction closed on October 20, 2009.

14. CONDITIONAL ACQUISITION OF HS ORKA HF

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. The Company will acquire an 8.62% interest in HS Orka in consideration of 2.5 billion Icelandic Krona ("ISK") (approximately \$20.2 million) payable upon closing of the transaction and a further 2.16% interest in consideration of 625 million ISK (approximately \$5.0 million) payable by March 31, 2010. An option will also be granted to the Company to acquire approximately an additional 5% interest in HS Orka in consideration of making a capital infusion of \$15 million into HS Orka.

On August 31, 2009, the Company entered into three share purchase agreements to acquire an additional 32.32% interest in HS Orka. Consideration for the acquisition will be 12.4 billion ISK (approximately \$100.8 million), of which 3.7 billion ISK (approximately \$30.2 million) will be paid in cash and the remainder of 8.7 billion ISK (approximately \$70.6 million) with the issuance of a bond. The bond is repayable in a single installment in seven years and bears interest at an effective rate of 1.52% per annum. The bond will be secured by the shares acquired by the Company in this transaction.

The closing of both these transactions are subject to several closing conditions, including obtaining the approval of Canadian regulatory authorities.

15. SUBSEQUENT EVENTS

- (a) 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 \$19,778,000, net of issue costs of approximately \$777,900.
- (b) In October 2009, the Company and Polaris Geothermal Inc. ("Polaris"), a wholly-owned subsidiary of Ram Power Corp., were jointly awarded two geothermal concessions in Nicaragua. The Company and Polaris will enter into a joint venture agreement for the future exploration of these concessions with each company contributing equally to project costs.