



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010 and 2009

TSX: MXY

MAGMA ENERGY CORP.**INTERIM CONSOLIDATED BALANCE SHEETS**

(expressed in thousands of US dollars)

	March 31, 2010	June 30, 2009
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 40,517	\$ 4,483
Receivables	502	334
Prepaid expenses	532	531
	41,551	5,348
Investment in HS Orka hf. (Note 3)	115,778	-
Plant and equipment (Note 4)	33,716	21,326
Geothermal properties (Note 5)	27,199	16,026
Other assets (Note 6)	904	232
Future income tax asset (Note 7)	412	-
Deferred share issue costs (Note 9(c))	-	848
	\$ 219,560	\$ 43,780
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 9,811	\$ 2,600
Current portion of long-term debt (Note 7)	10	-
Current portion of capital lease obligations (Note 8)	19	-
	9,840	2,600
Long-term debt (Note 7)	50,996	-
Capital lease obligations (Note 8)	25	-
Deferred revenue (Note 9)	2,151	1,982
	63,012	4,582
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	153,319	45,058
Contributed surplus (Note 11(b))	757	-
Accumulated other comprehensive income (loss)	15,366	(739)
Deficit	(12,894)	(5,121)
	156,548	39,198
	\$ 219,560	\$ 43,780

Subsequent events (Note 16)

APPROVED BY THE DIRECTORS

“Ross Beaty”

Director

“Robert Pirooz”

Director

See accompanying notes to the consolidated financial statements

MAGMA ENERGY CORP.**INTERIM 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 Nine Months Ended	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
Revenues				
Energy sales	\$ 1,295	\$ 1,404	\$ 3,709	\$ 2,707
Portfolio energy credit sales	-	522	-	522
	1,295	1,926	3,709	3,229
Direct cost of energy production	878	1,444	2,538	2,391
Gross profit	417	482	1,171	838
Expenses				
General and administrative	914	422	2,760	1,002
Property investigations	305	91	1,106	470
Amortization	321	215	875	425
Professional fees	467	263	851	510
Investor relations	181	-	441	-
Accretion (Note 9)	65	125	277	264
Travel	115	6	163	133
Depletion	11	18	32	37
Financing costs	-	36	-	864
	2,379	1,176	6,505	3,705
Other income (expenses)				
Equity income (Note 3)	3,602	-	1,676	-
Change in fair value of long-term debt (Note 7)	(2,652)	-	(1,565)	-
Interest on long-term debt	(249)	-	(299)	-
Foreign exchange gain (loss)	1,156	(25)	(1,939)	187
Interest and other income	49	36	303	97
Other expense	(500)	-	(500)	-
Geothermal property costs written-off	-	-	(527)	-
	1,406	11	(2,851)	284
Loss for the period before taxes	(556)	(683)	(8,185)	(2,583)
Future income tax recovery (Note 7)	698	-	412	-
Income (loss) for the period	\$ 142	\$ (683)	\$ (7,773)	\$ (2,583)
Basic and diluted earnings (loss) per share	\$ -	\$ -	\$ (0.03)	\$ (0.02)
Weighted average number of shares	248,555,011	154,535,779	241,886,813	139,500,756

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(expressed in thousands of US dollars)

Comprehensive income (loss)				
Income (loss) for the period	\$ 142	\$ (683)	\$ (7,773)	\$ (2,583)
Unrealized foreign exchange translation gain (loss)	2,806	(859)	16,105	(3,828)
Comprehensive income (loss) for the period	\$ 2,948	\$ (1,542)	\$ 8,332	\$ (6,411)

See accompanying notes to the consolidated financial statements

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

(expressed in thousands of US dollars)

	For the Three Months		For the Nine Months	
	March 31,	March 31,	March 31,	March 31,
	2010	2009	2010	2009
Cash provided from (used in):				
Operating activities				
Income (loss) for the period	\$ 142	\$ (683)	\$ (7,773)	\$ (2,583)
Items not involving cash:				
Amortization	321	215	875	425
Depletion	11	18	32	37
Deferred revenue (Note 9)	(1)	(229)	(381)	(416)
Accretion	65	125	277	264
Stock-based compensation	164	-	697	-
Equity income (Note 3)	(3,602)	-	(1,676)	-
Change in fair value of long-term debt	2,652	-	1,565	-
Unrealized foreign exchange gain on long-term debt	(1,695)	-	(2,077)	-
Geothermal property costs written-off	-	-	527	-
Future income tax recovery	(698)	-	(412)	-
Net changes in non-cash working capital items:				
Receivables	11	(543)	(113)	(628)
Prepaid expenses	122	(202)	72	(354)
Accounts payable and accrued liabilities	530	834	354	2,314
	(1,978)	(465)	(8,033)	(941)
Financing activities				
Loan payable	38	-	38	10,363
Repayment of loan payable	-	(10,362)	-	(10,874)
Capital lease obligations	44	-	44	-
Shares issued for cash, net of issue costs	49	22,785	109,092	32,065
	131	12,423	109,174	31,554
Investing activities				
Purchase price for acquisition of HS Orka hf.	(7,093)	-	(53,867)	-
Transaction costs of acquisition of HS Orka hf.	(125)	-	(2,433)	-
Purchase price for acquisition of Soda Lake business	-	-	-	(17,000)
Transaction costs for acquisition of Soda Lake business	-	-	-	(557)
Expenditures on plant and equipment	(2,244)	(306)	(9,726)	(473)
Expenditures on geothermal properties	(2,811)	(1,400)	(9,283)	(13,390)
Purchase of other assets	(772)	-	(741)	(100)
	(13,045)	(1,706)	(76,050)	(31,520)
Effect of foreign exchange on cash	1,728	(215)	10,943	(238)
Increase (decrease) in cash and cash equivalents	(13,164)	10,037	36,034	(1,145)
Cash and cash equivalents, beginning of period	53,681	1,527	4,483	12,709
Cash and cash equivalents, end of period	\$ 40,517	\$ 11,564	\$ 40,517	\$ 11,564

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 Nine Months	
	March 31,	March 31,	March 31,	March 31,
	2010	2009	2010	2009
Supplemental information relating to cash flows:				
Investing activities				
Purchase price for acquisition of HS Orka hf. paid for in April 2010 (Note 7)	\$ 6,545	\$ -	\$ 6,545	\$ -
Long-term debt issued as partial consideration for HS Orka hf. (Note 7)	\$ -	\$ -	\$ 49,403	\$ -
Application of funds paid in preceding quarter against transaction costs for HS Orka hf. acquisition	\$ -	\$ -	\$ 121	\$ -
Other cash flow information:				
Interest received	38	3	280	34
Interest paid	\$ -	\$ 36	\$ -	\$ 331

See accompanying notes to the consolidated financial statements

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

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

	Common Shares Number	Shares Amount	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Shareholders' Equity
Balance, June 30, 2008	132,146,668	\$ 12,993	\$ -	\$ (144)	\$ (661)	\$ 12,188
Common shares issued, net of issue costs	31,145,000	32,065	-	-	-	32,065
Effect of reporting currency translation	-	-	-	(3,828)	-	(3,828)
Loss for the period	-	-	-	-	(2,583)	(2,583)
Balance, March 31, 2009	163,291,668	45,058	-	(3,972)	(3,244)	37,842
Effect of reporting currency translation	-	-	-	3,233	-	3,233
Loss for the period	-	-	-	-	(1,877)	(1,877)
Balance, June 30, 2009	163,291,668	45,058	-	(739)	(5,121)	39,198
Common shares issued, net of issue costs (Notes 10(c) and 10(d))	85,286,306	108,248	-	-	-	108,248
Stock-based compensation on options exercised (Note 11(b))	-	13	(13)	-	-	-
Stock-based compensation (Note 11(b))	-	-	770	-	-	770
Effect of reporting currency translation	-	-	-	16,105	-	16,105
Loss for the period	-	-	-	-	(7,773)	(7,773)
Balance, March 31, 2010	248,577,974	\$ 153,319	\$ 757	\$ 15,366	\$ (12,894)	\$ 156,548

MAGMA ENERGY CORP.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(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 March 31, 2010, 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 5 and a 43.19% 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.
- Magma Energy Iceland ehf

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 43.19% interest in HS Orka hf. (“HS Orka”) by the equity method.

MAGMA ENERGY CORP.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(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) Goodwill and Goodwill Impairment

Business acquisitions are accounted for using the purchase method whereby assets acquired and liabilities assumed are recorded at fair value as of the date of the acquisition with the excess of the purchase price over such fair value recorded as goodwill. Goodwill is assigned to the reporting unit and is not amortized.

Goodwill of a reporting unit is tested for impairment on an annual basis or more frequently when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. The Company compares the estimated fair value of the reporting unit to which goodwill was assigned with the carrying amount of the reporting unit. When the carrying amount of a reporting unit exceeds its estimated fair value, the Company measures the goodwill impairment loss, if any, as the excess of the carrying amount of the reporting unit's goodwill over its estimated fair value.

A goodwill impairment loss is not reversed if the fair value of the reporting unit's goodwill subsequently increases.

MAGMA ENERGY CORP.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(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)

Goodwill was recognized in connection with the acquisition of an equity interest in HS Orka. The Company concluded that there was no impairment to the recorded balance of goodwill at March 31, 2010.

(e) 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.

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. INVESTMENT IN HS ORKA HF.

Investment to acquire a 10.78% interest

In July 2009, the Company entered into an agreement to acquire from existing shareholders a 10.78% interest in 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 Icelandic Krona ("ISK") 2.5 billion (approximately \$16.98 million). A further 2.16% interest was acquired on March 31, 2010 for consideration of ISK 625 million (approximately \$5.00 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.

Investment to acquire a 32.32% interest

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 ISK 3.7 billion (approximately \$29.79 million) and the issuance of bonds to the vendors with an aggregate principal amount of approximately \$70.27 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 \$49.40 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.

MAGMA ENERGY CORP.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2010****(Unaudited)**

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

3. INVESTMENT IN HS ORKA HF. (continued)***Investment to acquire additional interests***

On March 30, 2010, the Company entered into a subscription agreement to acquire 370,187,821 shares of HS Orka for consideration of ISK 1.11 billion (approximately \$8.73 million) of which ISK 277 million (approximately \$2.18 million) was paid on March 31, 2010 with the remaining ISK 833 million (approximately \$6.55 million) payable on April 20, 2010 (paid on April 28, 2010). These shares were issued from treasury by HS Orka and received by the Company on March 31, 2010. As not all existing shareholders of HS Orka participated in this financing, the purchase of these shares from treasury resulted in the Company acquiring additional ownership interests in HS Orka. Accordingly, for accounting purposes this transaction has been combined with the 2.16% interest acquired from existing shareholders also on March 31, 2010 and treated together as a single additional step in the Company's step-by-step acquisition of its investment in HS Orka.

Summary

At December 31, 2009, the Company owned a 40.94% interest in HS Orka. On March 31, 2010, as a result of the closing of the acquisition of the 2.16% interest from existing shareholders and the subscription shares received, the Company increased its interest in HS Orka to 43.19%. Total consideration for all purchases was approximately \$112.39 million. For all acquisitions closing on or after December 14, 2009 (the date upon which the use of equity accounting first became appropriate), the consideration paid has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The unaudited interim consolidated financial statements of the Company include the Company's 40.94% share of the operating results of HS Orka from December 14, 2009 to March 31, 2010. The acquisition of additional interests on March 31, 2010 has had no impact on the operating results of HS Orka recognized in the unaudited interim consolidated statement of operations.

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

The preliminary allocations of purchase consideration are summarized below:

Consideration paid:

	40.94%	2.25%	Total
Aggregate cash payments	\$ 46,774	\$ 13,638	\$ 60,412
Aggregate fair value of bonds issued for purchase of 32.32% interest	49,403	-	49,403
Transaction costs	2,453	125	2,578
	<u>\$ 98,630</u>	<u>\$ 13,763</u>	<u>\$ 112,393</u>
Carrying value of net assets purchased	\$ 41,368	\$ 2,844	\$ 44,212
Fair value excess allocated to:			
Property, plant and equipment	26,662	1,249	27,911
Resource and exploration rights	41,009	1,203	42,212
Customer base of power trading unit	2,160	98	2,258
Goodwill	-	8,828	8,828
Future income tax liability	(12,569)	(459)	(13,028)
	<u>\$ 98,630</u>	<u>\$ 13,763</u>	<u>\$ 112,393</u>

MAGMA ENERGY CORP.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2010****(Unaudited)**

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

3. INVESTMENT IN HS ORKA HF. (continued)

Since December 14, 2009, the Company has held more than a 40% 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 in HS Orka.

The carrying value of the Company's investment in HS Orka as at March 31, 2010 is as follows:

Consideration paid for an aggregate 40.94% interest (including transaction costs)	\$	98,630
Equity loss for the period from December 14, 2009 to December 31, 2009		(1,926)
Effect of reporting currency translation		716
		<u>97,420</u>
Consideration paid for an aggregate 2.25% interest (including transaction costs)		13,763
Equity income for the period from January 1, 2010 to March 31, 2010		3,602
Effect of reporting currency translation		993
		<u>993</u>
	\$	<u>115,778</u>

Summary financial information with respect to HS Orka as at March 31, 2010 and for the three months 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 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	\$	48,283
Non-current assets		287,353
	\$	<u>335,636</u>
Liabilities		
Current liabilities	\$	28,960
Non-current liabilities		179,951
Shareholders' equity		126,725
	\$	<u>335,636</u>

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

March 31, 2010

(Unaudited)

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

3. INVESTMENT IN HS ORKA HF (continued)**Summary Statement of Operations**

Revenue	\$	14,170
Production cost and cost of sales		(9,706)
Gross profit		4,464
Other income		24
Operating expenses		(250)
Net income from operations		4,238
Finance income		659
Finance expenses		(2,490)
Changes in fair value of embedded derivatives		9,514
Changes in fair value of other derivatives		364
Share of loss of investments subject to significant influence		(460)
Income before income taxes		11,825
Provision for income taxes		(2,212)
Income for the period		9,613
Other comprehensive loss		
Effect of foreign currency translation		(205)
Comprehensive income for the period	\$	9,408

4. PLANT AND EQUIPMENT

March 31, 2010	Cost	Accumulated Amortization	Net Book Value
Plant and plant equipment	\$ 34,420	\$ 1,500	\$ 32,920
Automotive	221	65	156
Furniture and equipment	828	232	596
	35,469	1,797	33,672
Assets held under capital leases			
Automotive	44	-	44
	\$ 35,513	\$ 1,797	\$ 33,716

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 \$13,618,731 (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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(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 March 31, 2010, the Company holds geothermal properties, or the rights to acquire geothermal properties, in the United States of America (USA), Argentina, Chile and Peru.

At March 31, 2010, the Company's expenditures on geothermal properties are as follows:

Property	Balance, June 30, 2009	Current period activity			Effect of Reporting Currency Translation	Costs Written Off	Balance, March 31, 2010
		Acquisition Costs	Deferred Exploration Costs	Depletion			
Geothermal properties in production							
USA							
Soda Lake	\$ 1,665	\$ 224	\$ 553	\$ (32)	\$ 266	\$ -	\$ 2,676
Geothermal properties under development							
USA							
Nevada							
McCoy	6,718	8	328	-	985	-	8,039
Desert Queen	1,667	-	450	-	255	-	2,372
Columbus Marsh	753	-	8	-	110	-	871
Beowawe	402	-	5	-	59	-	466
Panther Canyon	248	-	42	-	38	-	328
Quartz Mountain	31	-	8	-	4	-	43
Whitehorse	823	-	1	-	85	(909)	-
Baltazor Hot Springs	-	396	15	-	14	-	425
Buffalo Valley	-	619	31	-	23	-	673
White Rock Canyon	-	1,089	6	-	38	-	1,133
Granite Springs	-	467	57	-	18	-	542
Mopung Hills	-	11	30	-	1	-	42
Land, Mineral County	-	805	2	-	27	-	834
Utah							
Thermo	521	-	5	-	75	-	601
Oregon							
Glass Buttes	142	-	30	-	21	-	193
CHILE							
Maule	2,670	-	3,894	-	496	-	7,060
Pellado	-	33	115	-	3	-	151
PERU							
Huaynaputina	37	-	45	-	7	-	89
Casiri	38	-	48	-	8	-	94
Sabancaya	38	-	45	-	7	-	90
Collo	38	-	48	-	7	-	93
Ticsani	39	-	48	-	10	-	97
San Pedro	-	-	3	-	-	-	3
Crucero	-	-	4	-	-	-	4
ARGENTINA							
Coranzuli	97	-	27	-	15	-	139
Tuzgle-Tocomar	99	-	27	-	15	-	141
	\$ 16,026	\$ 3,652	\$ 5,875	\$ (32)	\$ 2,587	\$ (909)	\$ 27,199

MAGMA ENERGY CORP.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2010****(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	Current period activity			Costs Written-off	Balance, June 30, 2009
		Acquisition Costs	Deferred Exploration Costs	Depletion		
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	-	1,425	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	9	-	90	-	-	99
NICARAGUA						
Ometepe	-	1	-	-	(1)	-
	\$ 17	\$ 13,110	\$ 4,045	\$ (58)	\$ (1,088)	\$ 16,026

The effect of reporting currency translation on geothermal properties for the year ended June 30, 2009 was not segregated in the above table.

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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(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)

CHILE

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.

In May 2010, an exploitation permit was issued on the Maule property.

PERU

In January 2010, the Company acquired mining rights to the San Pedro and Crucero properties consisting of 1,600 hectares. There are no financial commitments associated with these properties.

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.

(b) In August 2009, the Company entered into a lease agreement to explore, prospect and develop geothermal resources on 4,359 acres of property located within the Mopung Hills Property in Nevada for a five-year term commencing on August 4, 2009 and extendible at the sole discretion of the Company for five additional one-year terms.

(c) In September 2009, the Company entered into a lease agreement to explore, prospect and develop geothermal resources on 626 acres located within new concessions acquired for the Soda Lake property for a five-year term commencing on September 16, 2009 and extendible for five additional one-year terms at the sole discretion of the Company.

(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.

6. OTHER ASSETS

Other assets consist of performance bonds in the aggregate of \$903,545 (June 30, 2009 - \$110,372) pledged to various regulatory authorities in the USA, Peru, Chile and Nicaragua. In April 2010, the Company determined it would not proceed with work on two concessions awarded in Nicaragua and forfeited performance bonds of \$100,000 on those concessions. The Company is pursuing the reimbursement of these bonds from a joint venture partner.

7. LONG-TERM DEBT

At March 31, 2010, long-term debt was comprised of the following:

Bonds payable issued for the acquisition of a 32.32% interest in HS Orka (Note 7(a))	\$	50,969
Loans payable for the acquisition of automotive equipment (Note 7(b))		37
Total long-term debt		51,006
Less: current portion		(10)
	\$	50,996

MAGMA ENERGY CORP.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(Unaudited)

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

7. LONG-TERM DEBT (continued)

(a) Bonds payable

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 by a formula incorporating the average of the three-months forward selling price of aluminium, as posted by the London Metal Exchange for the first business day of each month, for the prior 12-month period. The aluminium 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 aluminium price for each month prior to the pre-payment.

The indexation of the principal amount of the bonds to the price of aluminium 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		1,566
Balance, March 31, 2010	\$	50,969

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

Discount rates	8.32% - 10.81%
Aluminium prices	\$2,320 - \$2,804

The Company has recorded a future income tax asset of \$412,000 with respect to the change in the fair value of the bonds.

(b) Loans payable

In February 2010, the Company entered into two loan agreements for the purchase of automotive equipment. The aggregate loan principals of ISK 4.820 million (\$37,861) bears interest from 9.5% to 10.1% per annum and are payable in monthly instalments from \$267 to \$554 until April 4, 2014 to November 15, 2016.

MAGMA ENERGY CORP.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2010****(Unaudited)**

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

8. CAPITAL LEASE OBLIGATIONS

In March 2010, the Company acquired two vehicles and assumed the remaining long-term lease obligations on the vehicles. The remaining capital lease payments of \$44,000, of which the current portion is \$19,000, are payable until 2014 with interest at approximately 9.5% per annum.

9. 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.

10. 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, 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 10(c))	73,600,334	88,426
Private placement (Note 10(d))	11,652,639	19,773
Exercise of stock options (Note 11)	33,333	49
Stock-based compensation for stock options exercised (Note 11(b))	-	13
Balance, March 31, 2010	248,577,974	\$ 153,319

MAGMA ENERGY CORP.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2010****(Unaudited)**

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

10. SHARE CAPITAL (continued)**(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 \$88,425,496, 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.

(d) 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.

11. 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 March 31, 2010 and changes during the period then ended are as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at June 30, 2009	-	-
Granted	2,840,000	C \$1.57
Exercised	(33,333)	C \$1.50
Cancelled	(30,000)	C \$1.50
Outstanding at March 31, 2010	2,776,667	C \$1.58

At March 31, 2010, the Company had outstanding stock options to purchase an aggregate of 2,776,667 common shares as follows:

Options Outstanding			Options Exercisable	
Number of Shares	Expiry Date	Exercise Price	Number of Shares	Exercise Price
2,076,667	July 7, 2014	C\$1.50	669,995	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
350,000	February 8, 2015	C\$1.71	116,666	C\$1.71
50,000	February 15, 2015	C\$1.66	16,666	C\$1.66
2,776,667		C\$1.58	903,326	C\$1.58

MAGMA ENERGY CORP.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2010****(Unaudited)**

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

11. STOCK OPTIONS ((continued))**(b) Contributed Surplus**

	Number of Options	Fair Value Amount			
		Outstanding	Exercised	Cancelled	Total
Unexercised options, June 30, 2009	-	\$ -	\$ -	-	\$ -
Options granted	2,840,000	770	-	-	770
Options exercised	(33,333)	-	(13)	-	(13)
Options cancelled	(30,000)	(6)	-	6	-
Unexercised options, March 31, 2010	2,776,667	\$ 764	\$ (13)	6	\$ 757

The weighted average grant date fair value of options granted during the period was C\$0.48.

Pursuant to the Company's accounting policy for stock-based compensation, the fair value of options vesting during the period, in the amount of \$770,939 (2008 – nil) has been recorded. Of this amount, \$537,901 (2008 – nil) has been included in general and administrative, \$88,603 (2008 – nil) has been included in property investigations, \$70,292 (2008 – nil) has been included in investor relations, \$430 (2008 – nil) has been included in direct cost of energy produced, \$56,493 (2008 – nil) has been capitalized to geothermal properties and \$17,220 (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	1.11% - 1.31%
Expected dividend yield	-
Expected stock price volatility	39% - 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.

12. SEGMENTED DISCLOSURE

Until October 3, 2008, the Company had one operating segment, the exploration of geothermal properties. The Company's acquisitions of the Soda Lake geothermal power plant on October 3, 2008 and HS Orka during the nine months ended March 31, 2010 resulted in the Company having two distinct business segments:

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

MAGMA ENERGY CORP.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2010****(Unaudited)**

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

12. SEGMENTED DISCLOSURE (continued)

All revenue was generated in the USA and, during the nine months ended March 31, 2010, 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.

	March 31, 2010		
	Geothermal Exploration	Production and Sales	Total
CANADA			
Current assets	\$ 38,702	\$ -	\$ 38,702
Plant and equipment	275	-	275
Other assets	100	-	100
	39,077		39,077
USA			
Current assets	410	810	1,220
Plant and equipment	160	33,008	33,168
Geothermal properties	17,222	2,016	19,238
Other assets	50	11	61
	17,842	35,845	53,687
CHILE			
Current assets	1,206	-	1,206
Plant and equipment	150	-	150
Geothermal properties	7,211	-	7,211
Other assets	62	-	62
	8,629	-	8,629
PERU			
Current assets	158	-	158
Geothermal properties	470	-	470
Other assets	681	-	681
	1,309	-	1,309
ARGENTINA			
Current assets	13	-	13
Geothermal properties	280	-	280
	293	-	293
SWEDEN			
Current assets	12	-	12
Future income tax asset	412	-	412
	424	-	424
ICELAND			
Current assets	240	-	240
Plant and equipment	123	-	123
Other assets	-	115,778	115,778
	363	115,778	116,141
Total assets	\$ 67,937	\$ 151,623	\$ 219,560
Capital expenditures	\$ 11,318	\$ 128,494	\$ 139,812

MAGMA ENERGY CORP.**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2010****(Unaudited)**

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

12. SEGMENTED DISCLOSURE (continued)**For the Three Months Ended March 31, 2010**

	Geothermal Exploration		Production and Sales		Total
Revenue	\$	-	\$	1,295	\$ 1,295
Direct cost of energy production		-		(878)	(878)
Gross profit		-		417	417
General and administrative		(914)		-	(914)
Property investigations		(305)		-	(305)
Amortization		(52)		(269)	(321)
Professional fees		(467)		-	(467)
Investor relations		(181)		-	(181)
Accretion		-		(65)	(65)
Travel		(115)		-	(115)
Depletion		-		(11)	(11)
Equity income		-		3,602	3,602
Change in fair value of long-term debt		-		(2,652)	(2,652)
Interest on long-term debt		-		(249)	(249)
Foreign exchange gain		757		399	1,156
Interest and other income		49		-	49
Other expense		-		(500)	(500)
Future income tax recovery		-		698	698
Income (loss) for the period	\$	(1,228)	\$	1,370	\$ 142

For the Three Months Ended March 31, 2009

	Geothermal Exploration		Production and Sales		Total
Revenue					
Energy Sales	\$	-	\$	1,404	\$ 1,404
Portfolio energy credit sales		-		522	522
				1,926	1,926
Direct cost of energy production		-		(1,444)	(1,444)
Gross profit		-		482	482
Financing costs		(36)		-	(36)
General and administrative		(422)		-	(422)
Property investigations		(91)		-	(91)
Amortization		(18)		(197)	(215)
Professional fees		(263)		-	(263)
Accretion		-		(125)	(125)
Travel		(6)		-	(6)
Depletion		-		(18)	(18)
Foreign exchange loss		(25)		-	(25)
Interest and other income		36		-	36
Loss for the period	\$	(825)	\$	142	\$ (683)

MAGMA ENERGY CORP.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(Unaudited)

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

12. SEGMENTED DISCLOSURE (continued)

For the Nine Months Ended March 31, 2010

	Geothermal Exploration	Production and Sales	Total
Revenue	\$ -	\$ 3,709	\$ 3,709
Direct cost of energy production	-	(2,538)	(2,538)
Gross profit	-	1,171	1,171
General and administrative	(2,760)	-	(2,760)
Property investigations	(1,106)	-	(1,106)
Amortization	(132)	(743)	(875)
Professional fees	(851)	-	(851)
Investor relations	(441)	-	(441)
Accretion	-	(277)	(277)
Travel	(163)	-	(163)
Depletion	-	(32)	(32)
Equity income	-	1,676	1,676
Change in fair value of long-term debt	-	(1,565)	(1,565)
Interest on long-term debt	-	(299)	(299)
Foreign exchange gain (loss)	(2,988)	1,049	(1,939)
Interest and other income	303	-	303
Geothermal property costs written-off	(527)	-	(527)
Other expense	-	(500)	(500)
Future income tax recovery	-	412	412
Earnings (loss) for the period	\$ (8,665)	\$ 892	\$ (7,773)

For the Nine Months Ended March 31, 2009

	Geothermal Exploration	Production and Sales	Total
Revenue	\$ -	\$ -	\$ -
Energy sales	-	2,707	2,707
Portfolio energy credit sales	-	522	522
		3,229	3,229
Direct cost of energy production	-	(2,391)	(2,391)
Gross profit	-	838	838
Financing costs	(864)	-	(864)
General and administrative	(1,002)	-	(1,002)
Property investigations	(470)	-	(470)
Amortization	(27)	(398)	(425)
Professional fees	(510)	-	(510)
Accretion	-	(264)	(264)
Travel	(133)	-	(133)
Depletion	-	(37)	(37)
Foreign exchange gain	187	-	187
Interest and other income	94	3	97
Loss for the period	\$ (2,725)	\$ 142	\$ (2,583)

MAGMA ENERGY CORP.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(Unaudited)

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

13. MANAGEMENT OF FINANCIAL RISKS

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, long-term debt and capital lease obligations. 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 the automotive equipment loans in long-term debt and capital lease obligations, 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 March 31, 2010 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 \$40,516,870 at March 31, 2010 and \$4,482,693 at June 30, 2009 were more than sufficient to pay these current liabilities.

Interest on bonds payable included in 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(Unaudited)

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

13. 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's investments and debts 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 March 31, 2010 and 2009, 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 \$290,000 and \$81,000 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 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 aluminium. Therefore, its revenues and profitability of its operations are significantly exposed to fluctuations in the price of aluminium. A 10% increase or decrease in the price of aluminium would have increased or decreased the net income of HS Orka by \$23.114 million in 2009. HS Orka does not hedge against aluminium 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 aluminium. Therefore, the principal amounts owed on the due date, and the annual interest payments thereon, will fluctuate with the price of aluminium. A 10% increase or decrease in the price of aluminium would have increased or decreased the fair

MAGMA ENERGY CORP.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(Unaudited)

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

14. CAPITAL DISCLOSURES

value of the bonds by approximately \$1.77 million at March 31, 2010. The effect on annual interest payments would be an increase or decrease of approximately \$27,000.

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's 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.

15. 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	\$	66
Fiscal 2011		188
Fiscal 2012		166
Fiscal 2013		94
Fiscal 2014		61
Fiscal 2015		31
<hr/>		
Total lease commitments	\$	606

- (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.

16. SUBSEQUENT EVENTS

- (a) In May 2010, the Company acquired additional shares from the treasury of HS Orka for cash consideration of ISK 625 million (approximately US\$3.195 million). With this acquisition, the Company's interest in HS Orka increased by 2.99% to 46.18%.
- (b) In May 2010, the Company acquired 3 new geothermal properties in Nevada from the BLM for cash consideration of \$760,499. The acquisitions contributed additional geothermal concessions to the Company's Desert Queen and Granite Springs properties.